MARKETING INSIGHTS FROM A to Z

80 CONCEPTS EVERY MANAGER NEEDS TO KNOW

PHILIP KOTLER

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To all those who have worked in
business and marketing
with a passion to satisfy customer needs
and enhance customer and societal well-being.

Preface

My 40-year career in marketing has produced some knowledge and even a little wisdom. Reflecting on the state of the discipline, it occurred to me that it is time to revisit the basic concepts of marketing.

First, I listed the 80 concepts in marketing critical today and spent time mulling over their meanings and implications for sound business practice. My primary aim was to ascertain the best principles and practices for effective and innovative marketing. I found this journey to be filled with many surprises, yielding new insights and perspectives.

I didn't want to write another 800-page textbook on marketing. And I didn't want to repeat thoughts and passages that I have written in previous books. I wanted to present fresh and stimulating ideas and perspectives in a format that could be picked up, sampled, digested, and put down anytime. This short book is the result, and it was written with the following audiences in mind:

- Managers who have just learned that they need to know something about marketing; you could be a financial vice president, an executive director of a not-for-profit organization, or an entrepreneur about to launch a new product. You

may not even have time to read *Marketing for Dummies* with its 300 pages. Instead you want to understand some key concepts and marketing principles presented by an authoritative voice, in a convenient way.

- Managers who may have taken a course on marketing some years ago and have realized things have changed. You may want to refresh your understanding of marketing's essential concepts and need to know the latest thinking about high-performance marketing.
- Professional marketers who might feel unanchored in the daily chaos of marketing events and want to regain some clarity and recharge their understanding by reading this book.

My approach is influenced by Zen. Zen emphasizes learning by means of meditation and direct, intuitive insights. The thoughts in this book are a result of my meditations on these fundamental marketing concepts and principles.

Whether I call these meditations, ruminations, or cogitations, I make no claim that all the thoughts in this book are my own. Some great thinkers in business and marketing are directly quoted, or they directly influenced the thoughts here. I have absorbed their ideas through reading, conversations, teaching, and consulting.

Introduction

Today's central problem facing business is not a shortage of goods but a shortage of customers. Most of the world's industries can produce far more goods than the world's consumers can buy. Overcapacity results from individual competitors projecting a greater market share growth than is possible. If each company projects a 10 percent growth in its sales and the total market is growing by only 3 percent, the result is excess capacity.

This in turn leads to hypercompetition. Competitors, desperate to attract customers, lower their prices and add giveaways. These strategies ultimately mean lower margins, lower profits, some failing companies, and more mergers and acquisitions.

Marketing is the answer to how to compete on bases other than price. Because of overcapacity, marketing has become more important than ever. Marketing is the company's *customer manufacturing department.*

But marketing is still a terribly misunderstood subject in business circles and in the public's mind. Companies think that marketing exists to help manufacturing get rid of the company's products. The truth is the reverse, that manufacturing exists to support marketing. A company can always outsource its manufacturing. What makes a company

prosper is its marketing ideas and offerings. Manufacturing, purchasing, research and development (R&D), finance, and other company functions exist to support the company's work in the customer marketplace.

Marketing is too often confused with selling. Marketing and selling are almost opposites. "Hard-sell marketing" is a contradiction. Long ago I said: **"Marketing is not the art of finding clever ways to dispose of what you make. Marketing is the art of creating genuine customer value. It is the art of helping your customers become better off. The marketer's watchwords are quality, service, and value."**

Selling starts only when you have a product. Marketing starts before a product exists. Marketing is the homework your company does to figure out what people need and what your company should offer. Marketing determines how to launch, price, distribute, and promote your product/service offerings to the marketplace. Marketing then monitors the results and improves the offering over time. Marketing also decides if and when to end an offering.

All said, marketing is not a short-term selling effort but a long-term investment effort. When marketing is done well, it occurs before the company makes any product or enters any market; and it continues long after the sale.

Lester Wunderman, of direct marketing fame, contrasted selling to marketing in the following way: **"The chant of the Industrial Revolution was that of the manufacturer who said, 'This is what I make, won't you please buy it?' The call of the Information Age is the consumer asking, 'This is what I want, won't you please make it?' "**[1]

Marketing hopes to understand the target customer so well that selling isn't necessary. Peter Drucker held that **"the aim of marketing is to make selling superfluous."**[2] **Mark**-eting is the ability to hit the **mark.**

Yet there are business leaders who say, "We can't waste time on marketing. We haven't designed the product yet." Or "We are too suc-

cessful to need marketing, and if we were unsuccessful, we couldn't afford it." I remember being phoned by a CEO: "Come and teach us some of your marketing stuff—my sales just dropped by 30 percent."

Here is my definition of marketing: **Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, communicating, and delivering superior customer value.**

Or if you like a more detailed definition: **"Marketing is the business function that identifies unfulfilled needs and wants, defines and measures their magnitude and potential profitability, determines which target markets the organization can best serve, decides on appropriate products, services, and programs to serve these chosen markets, and calls upon everyone in the organization to think and serve the customer."**

In short, marketing's job is to convert people's changing needs into profitable opportunities. Marketing's aim is to create value by offering superior solutions, saving buyer search and transaction time and effort, and delivering to the whole society a higher standard of living.

Marketing practice today must go beyond a fixation on transactions that often leads to a sale today and a lost customer tomorrow. The marketer's goal is to build a mutually profitable long-term relationship with its customers, not just sell a product. A business is worth no more than the lifetime value of its customers. This calls for knowing your customers well enough to deliver relevant and timely offers, services, and messages that meet their individual needs.

The function of marketing is typically organized as a department within a business. This is good and bad. It's good because it brings together a number of skilled people with specific abilities for understanding, serving, and satisfying customers. It's bad because other departments believe that all marketing is done in one department. As the late David Packard of Hewlett-Packard observed, **"Marketing is much too important to leave to the marketing department. . . . In a truly great marketing organization, you can't**

tell who's in the marketing department. Everyone in the organization has to make decisions based on the impact on the customer."

The same thought was well-stated by Professor Philippe Naert: **"You will not obtain the real marketing culture by hastily creating a marketing department or team, even if you appoint extremely capable people to the job. Marketing begins with top management. If top management is not convinced of the need to be customer minded, how can the marketing idea be accepted and implemented by the rest of the company?"**

Marketing is not restricted to a department that creates ads, selects media, sends out direct mail, and answers customer questions. Marketing is a larger process of systematically figuring out what to make, how to bring it to the customer's attention and easy access, and how to keep the customer wanting to buy more from you.

Furthermore, marketing strategy and actions are not only played out in customer markets. For example, your company also has to raise money from investors. As a result you need to know how to market to investors. You also want to attract talent to your company. So you need to develop a value proposition that will attract the most able people to join your company. Whether marketing to customers, investors, or talent, you need to understand their needs and wants and present a competitively superior value proposition to win their favor.

Is marketing hard to learn? The good news is that marketing takes a day to learn. The bad news is that it takes a lifetime to master! But even the bad news can be looked at in a positive way. I take inspiration from Warren Bennis' remark: "Nothing gives me a greater joy than learning something new." (Mr. Bennis is Distinguished Professor at the University of California and prominent writer on leadership.)

The good news is that marketing will be around forever. The bad news: It won't be the way you learned it. In the coming decade, marketing will be reengineered from A to Z. I have chosen to highlight 80 of the most critical concepts and ideas that businesspeople need in waging their battles in this hypercompetitive and rapidly changing marketplace.

Contents

Advertising

I (and most people) have a love/hate relationship with advertising. Yes, I enjoy each new Absolut vodka print ad: Where will they hide the famous bottle? And I enjoy the humor in British ads, and the risqué quality of French ads. Even some advertising jingles and melodies stick in my mind. But I don't enjoy most ads. In fact, I actively ignore them. They interrupt my thought processes. Some do worse: They irritate me.

The best ads not only are creative, they sell. Creativity alone is not enough. Advertising must be more than an art form. But the art helps. William Bernbach, former head of Doyle, Dane & Bernbach, observed: **"The facts are not enough. . . . Don't forget that Shakespeare used some pretty hackneyed plots, yet his message came through with great execution."**

Even a great ad execution must be renewed or it will become outdated. Coca-Cola cannot continue forever with a catchphrase like "The Real Thing," "Coke Is It," or "I'd Like to Teach the World to Sing." Advertising wear-out is a reality.

Advertising leaders differ on how to create an effective ad campaign. Rosser Reeves of the Ted Bates & Company advertising agency favored linking the brand directly to a single benefit, as in

"R-O-L-A-I-D-S spells RELIEF." Leo Burnett preferred to create a character that expressed the product's benefits or personality: the Green Giant, the Pillsbury Doughboy, the Marlboro cowboy, and several other mythical personalities. The Doyle, Dane & Bernbach agency favored developing a narrative story with episodes centered on a problem and its outcome: thus a Federal Express ad shows a person worried about receiving something at the promised time who is then reassured by using FedEx's tracking system.

The aim of advertising is not to state the facts about a product but to sell a solution or a dream. Address your advertising to the customers' aspirations. This is what Ferrari, Tiffany, Gucci, and Ferragamo do. A Ferrari automobile delivers on three dreams: social recognition, freedom, and heroism. Remember Revlon founder Charles Revson's remark: "In our factory, we make lipstick. In our advertising, we sell hope."[3]

But the promise of dreams only makes people suspicious of advertising. They don't believe that their selection of a particular car or perfume will make them any more attractive or interesting. Stephen Leacock, humorist and educator, took a cynical view of advertising: **"Advertising may be described as the science of arresting the human intelligence long enough to get money from it."**

Ads primarily create product awareness, sometimes product knowledge, less often product preference, and more rarely, product purchase. That's why advertising cannot do the job alone. Sales promotion may be needed to trigger purchase. A salesperson might be needed to elaborate on the benefits and close the sale.

What's worse, many ads are not particularly creative. Most are not memorable. Take auto ads. The typical one shows a new car racing 100 miles an hour around mountain bends. But we don't have mountains in Chicago. And 60 miles an hour is the speed limit. And furthermore I can't remember which car the ad featured. Conclusion: Most ads are a waste of the companies' money and my time.

Most ad agencies blame the lack of creativity on the client.

Clients wisely ask their agencies to come up with three ads, from mild to wild. But then the client typically settles for the mild and safe one. Thus the client plays a role in killing good advertising.

Companies should ask this question before using advertising: **Would advertising create more satisfied clients than if our company spent the same money on making a better product, improving company service, or creating stronger brand experiences?** I wish that companies would spend more money and time on designing an exceptional product, and less on trying to psychologically manipulate perceptions through expensive advertising campaigns. **The better the product, the less that has to be spent advertising it.** The best advertising is done by your satisfied customers.

The stronger your customer loyalty, the less you have to spend on advertising. First, most of your customers will come back without you doing any advertising. Second, most customers, because of their high satisfaction, are doing the advertising for you. In addition, advertising often attracts deal-prone customers who will flit in and out in search of a bargain.

There are legions of people who love advertising whether or not it works. And I don't mean those who need a commercial to provide a bathroom break from the soap opera. My late friend and mentor, Dr. Steuart Henderson Britt, passionately believed in advertising. **"Doing business without advertising is like winking at a girl in the dark. You know what you are doing, but nobody else does."**

The advertising agency's mantra is: "Early to bed, early to rise, work like hell, advertise."

But I still advise: Make good advertising, not bad advertising. David Ogilvy cautioned: **"Never write an advertisement which you wouldn't want your own family to read. You wouldn't tell lies to your own wife. Don't tell them to mine."**[4]

Ogilvy chided ad makers who seek awards, not sales: **"The advertising business . . . is being pulled down by the people who**

create it, who don't know how to sell anything, who have never sold anything in their lives . . . who despise selling, whose mission in life is to be clever show-offs, and con clients into giving them money to display their originality and genius."[5]

Those who love advertising can point to many cases where it worked brilliantly: Marlboro cigarettes, Absolut vodka, Volvo automobiles. It also worked in the following cases:

- A company advertised for a security guard. The next day it was robbed.
- If you think advertising doesn't pay—we understand there are 25 mountains in Colorado higher than Pikes Peak. Can you name one?

Those against too much reliance on advertising are fond of quoting John Wanamaker of department store fame: **"I know that half the money I spend on advertising is wasted; but I can never find out which half."**

How should you develop your advertising? You have to make decisions on the five Ms of advertising: *mission*, *message*, *media*, *money*, and *measurement*.

The ad's *mission* can be one of four: to **inform, persuade, remind,** or **reinforce** a purchase decision. With a new product, you want to inform and/or persuade. With an old product, like Coca-Cola, you want to remind. With some products just bought, you want to reassure the purchaser and reinforce the decision.

The *message* must communicate the brand's distinctive value in words and pictures. Any message should be tested with the target audience using a set of six questions (see box).

The *media* must be chosen for their ability to reach the target market cost-effectively. Besides the classic media of newspapers, magazines, radio, television, and billboards, there is a flurry of new media, including e-mail, faxes, telemarketers, digital magazines, in-store ad-

Advertisement Message Test

1. What is the main message you get from this ad?
2. What do you think the advertiser wants you to know, believe, or do?
3. How likely is it that this ad will influence you to undertake the implied action?
4. What works well in the ad and what works poorly?
5. How does the ad make you feel?
6. Where is the best place to reach you with this message—where would you be most likely to notice it and pay attention to it?

vertising, and advertising now popping up in skyscraper elevators and bathrooms. Media selection is becoming a major challenge.

A company works with the media department of the ad agency to define how much *reach*, *frequency*, and *impact* the ad campaign should achieve. Suppose you want your advertising campaign to deliver at least one exposure to 60 percent of the target market consisting of 1,000,000 people. This is 600,000 exposures. But you want the average person to see your ad three times during the campaign. That is 1,800,000 exposures. But it might take six exposures for the average person to notice your ad three times. Thus you need 3,600,000 exposures. And suppose you want to use a high-impact media vehicle costing $20 per 1,000 exposures. Then the campaign should cost $72,000 ($20 × 3,600,000/1,000). Notice that your company could use the same budget to reach more people with less frequency or to reach more people with lower-impact media vehicles. There are trade-offs among reach, frequency, and impact.

Next is *money*. The *ad budget* is arrived at by pricing the reach, frequency, and impact decisions. This budget must take into account that the company has to pay for ad production and other costs.

A welcome trend would be that advertisers pay advertising agencies on a pay-for-performance basis. This would be reasonable because the agencies claim that their creative ad campaigns will increase the companies' sales. So pay the agency an 18 percent commission if sales increase, a normal 15 percent commission if sales remain the same, and a 13 percent commission with a warning if sales have fallen. Of course, the agency will say that other forces caused the drop in sales and even that the drop would have been deeper had it not been for the ad campaign.

Now for *measurement*. Ad campaigns require premeasurement and postmeasurement. Ad mock-ups can be tested for communication effectiveness using recall, recognition, or persuasion measures. Postmeasurements strive to calculate the communication or sales impact of the ad campaign. This is difficult to do, though, particularly with image ads.

For example, how can Coca-Cola measure the impact of a picture of a Coke bottle on the back page of a magazine on which the company spent $70,000 to influence purchases? At 70 cents a bottle and 10 cents of profit per bottle, Coke would have to sell 700,000 additional bottles to cover the $70,000 cost of the ad. I just don't believe that ad will sell 700,000 extra bottles of Coke.

Companies must try, of course, to measure results of each ad medium and vehicle. If online promotions are drawing in more prospects than TV ads, adapt your budget in favor of the former. Don't maintain a fixed allocation of your advertising budget. Move ad money into the media that are producing the best response.

One thing is certain: Advertising dollars are wasted when spent to advertise inferior or indistinct products. Pepsi-Cola spent $100 million to launch Pepsi One, and it failed. In fact, the quickest way to kill a poor product is to advertise it. More people

will try the product sooner and tell others faster how bad or irrelevant it is.

How much should you spend on advertising? If you spend too little, you are spending too much because no one notices it. A million dollars of TV advertising will hardly be noticed. And if you spend too many millions, your profits will suffer. Most ad agencies push for a "big bang" budget and while this may be noticed, it hardly moves sales.

It is hard to measure something that can't be measured. Stan Rapp and Thomas Collins put their finger on the problem in the book *Beyond MaxiMarketing.* **"We are simply emphasizing that research often goes to great lengths to measure irrelevant things, including people's *opinions* about advertising or their *memories* of it rather than their *actions* as a result of it."**[6]

Will mass advertising diminish in its influence and use? I think so. People are increasingly cynical about and increasingly inattentive to advertising. One of its former major spenders, Sergio Zyman, ex-vice president of Coca-Cola, said recently, **"Advertising, as you know it, is dead."** He then redefined advertising: **"Advertising is a lot more than just television commercials—it includes branding, packaging, celebrity spokespeople, sponsorships, publicity, customer service, the way you treat your employees, and even the way your secretary answers the phone."**[7] What he is really doing is defining marketing.

A major limitation of advertising is that it constitutes a monologue. As evidence, most ads do not contain a telephone number or e-mail address to enable the customer to respond. What a lost opportunity for the company to learn something from a customer! Marketing consultant Regis McKenna observed: **"We are witnessing the obsolescence of advertising. The new marketing requires a feedback loop; it is this element that is missing from the monologue of advertising."**[8]

Brands

Everything is a brand: Coca-Cola, FedEx, Porsche, New York City, the United States, Madonna, and you—yes, you! A brand is any label that carries meaning and associations. **A great brand does more: It lends coloration and resonance to a product or service.**

Russell Hanlin, the CEO of Sunkist Growers, observed: **"An orange is an orange . . . is an orange. Unless . . . that orange happens to be Sunkist, a name 80 percent of consumers know and trust."** We can say the same about Starbucks: "There is coffee and there is Starbucks coffee."

Are brands important? Roberto Goizueta, the late CEO of Coca-Cola, commented: **"All our factories and facilities could burn down tomorrow but you'd hardly touch the value of the company; all that actually lies in the goodwill of our brand franchise and the collective knowledge in the company."** And a booklet by Johnson & Johnson reaffirms this: **"Our company's name and trademark are by far our most valuable assets."**

Companies must work hard to build brands. David Ogilvy insisted: **"Any damn fool can put on a deal, but it takes genius, faith and perseverance to create a brand."**

The sign of a great brand is how much loyalty or preference it

commands. Harley Davidson is a great brand because Harley Davidson motorcycle owners rarely switch to another brand. Nor do Apple Macintosh users want to switch to Microsoft.

A well-known brand fetches extra pennies. The aim of branding, according to one cynic, "is to get more money for a product than it is worth." But this is a narrow view of the benefits that a trusted brand confers on users. The user knows by the brand name the product quality and features to expect and the services that will be rendered, and this is worth extra pennies.

A brand saves people time, and this is worth money. Niall Fitzgerald, chairman of Unilever, observed: **"A brand is a storehouse of trust that matters more and more as choices multiply. People want to simplify their lives."**

The brand amounts to a contract with the customer regarding how the brand will perform. The brand contract must be honest. Motel 6, for example, offers clean rooms, low prices, and good service but does not imply that the furnishings are luxurious or the bathroom is large.

How are brands built? It's a mistake to think that advertising builds the brand. Advertising only calls attention to the brand; it might even create brand interest and brand talk. Brands are built *holistically*, through the orchestration of a variety of tools, including *advertising*, *public relations (PR)*, *sponsorships*, *events*, *social causes*, *clubs*, *spokespersons*, and so on.

The real challenge is not in placing an ad but to get the media talking about the brand. Media journalists are on the lookout for interesting products or services, such as Palm, Viagra, Starbucks, eBay. A new brand should strive to establish a new category, have an interesting name, and tell a fascinating story. If print and TV will pick up the story, people will hear about it and tell their friends. Learning about a brand from others creates credibility. Learning about it only through paid advertising is easy to dismiss because of the biased nature of advertising.

Don't advertise the brand, live it. Ultimately the brand is built by

your employees who deliver a positive experience to the customers. Did the *brand experience* live up to the *brand promise*? This is why companies must orchestrate the brand experience with the brand promise.

Choosing a good brand name helps. A consumer panel was shown the pictures of two beautiful women and asked who was more beautiful. The vote split 50–50. Then the experimenter named one woman Jennifer and the other Gertrude. The woman named Jennifer subsequently received 80 percent of the votes.

Great brands are the only route to sustained, above-average profitability. And great brands present emotional benefits, not just rational benefits. Too many brand managers focus on rational incentives such as the brand's features, price, and sales promotion, which contribute little to growing the brand-customer relationship. Great brands work more on emotions. And in the future, great brands will show social responsibility—a caring concern for people and the state of the world.

A company needs to think through what its brand is supposed to mean. What should Sony mean, Burger King mean, Cadillac

Richard Branson's Virgin brand is about fun and creativity. These attributes are projected in all of Virgin's marketing activities. Some of Virgin Atlantic's Airways' flights include massages, live rock bands, and casinos. Flight attendants are fun-loving and enjoy joking with the passengers. Branson uses public relations to project his daring, such as attempting to fly around the world in a hot-air balloon. To launch Virgin Bride (bridal wear), Branson dressed up in drag as a bride.

mean? A brand must be given a personality. It must thrive on some trait(s). And the traits must percolate through all of the company's marketing activities.

Once you define the attribute(s) of your brand, you need to express them in every marketing activity. Your people must live out the brand spirit at the corporate level and at the job-specific level. Thus if your company brands itself as innovative, then you must hire, train, and reward people for being innovative. And being innovative must be defined for every job position, including the production supervisor, the van driver, the accountant, and the salesperson.

The brand personality must be carried out by the company's partners as well. The company cannot allow its dealers to compromise the brand by engaging in price-cutting against other dealers. They must represent the brand properly and deliver the expected brand experience.

When a brand is successful, the company will want to put the brand name on additional products. The brand name may be put on products launched in the same category (*line extension*), in a new category (*brand extension*), or even in a new industry (*brand stretch*).

Line extension makes sense in that the company can coast on the goodwill that it has built up in the category and save the money that it would otherwise have to spend to create brand awareness of a new name and offering. Thus we see Campbell Soup introducing new soups under its widely recognized red label. But this requires the discipline of adding new soups while subtracting unprofitable soups from the line. The new soups can cannibalize the sales of the core soups without bringing in much additional revenue to cover the additional costs. They can reduce operational efficiency, increase distribution costs, confuse consumers, and reduce overall profitability. Some line extensions are clearly worth adding, but overuse of line extensions must be avoided.

Brand extension is riskier: I buy Campbell's soup but I might be less interested in Campbell's popcorn. *Brand stretch* is even more risky: Would you buy a Coca-Cola car?

Well-known companies tend to assume that their great name

can carry them successfully into another category. Yet whatever happened to Xerox computers or Heinz salsa? Did the Hewlett-Packard/Compaq iPAQ Pocket PC overtake the Palm handheld or did Bayer acetaminophen overtake Tylenol? Is Amazon electronics as successful as Amazon books? Too often the company is introducing a me-too version of the product that ultimately loses to the existing category leaders.

The better choice would be to establish a new name for a new product rather than carry the company's name and all of its baggage. The company name creates a feeling of more of the same, rather than something new. Some companies know this. Toyota chose not to call its upscale car Toyota Upscale but rather Lexus; Apple Computer didn't call its new computer Apple IV but Macintosh; Levi's didn't call its new pants Levi's Cottons but Dockers; Sony didn't call its new videogame Sony Videogame but PlayStation; and Black & Decker didn't call its upgraded tools Black & Decker Plus but DeWalt. Creating a new brand name gives more opportunity to establish and circulate a fresh public relations story to gain valuable media attention and talk. A new brand needs credibility, and PR is much better than advertising in establishing credibility.

Yet every rule has its exceptions. Richard Branson has put the name Virgin on several dozen businesses, including Virgin Atlantic Airways, Virgin Holidays, Virgin Hotels, Virgin Trains, Virgin Limousines, Virgin Radio, Virgin Publishing, and Virgin Cola. Ralph Lauren's name is found on numerous clothing products and home furnishings. Still a company has to ask: How far can the brand name be stretched before it loses its meaning?

Al Ries and Jack Trout, two keen marketing thinkers, are against most line and brand extensions; they see it as diluting the brand. To them, a Coke should mean an eight-ounce soft drink in the famous Coke bottle. But ask today for a Coke and you will have to answer whether you want Coca-Cola Classic, Caffeine Free Coca-Cola Classic, Diet Coke, Diet Coke with Lemon, Vanilla Coke, or

Cherry Coke—and do you want it in a can or a bottle? Vendors used to know what you wanted when you asked for a Coke.

Brand pricing is a challenge. When Lexus started to make inroads against Mercedes in the United States, Mercedes wasn't going to lower its price to match Lexus' lower price. No, some Mercedes managers even proposed raising Mercedes' price to establish that Mercedes is selling prestige that the buyer can't get from a Lexus.

But brand price premiums today are shrinking. A leading brand in the past could safely charge 15 to 40 percent more than the average brand; today it would be lucky to get 5 to 15 percent more. When product quality was uneven, we would pay more for the better brand. Now all brands are pretty good. Even the store's brand is good. In fact, it probably is made by the national brand to the same standards. So why pay more (except for show-off brands like Mercedes) to impress others?

In recessionary times, price loyalty is greater than brand loyalty. Customer loyalty may reflect nothing more than inertia or the absence of something better. As someone observed, "There is nothing that a 20 percent discount won't cure."

A company handles its brands through brand managers. But Larry Light, a brand expert, doesn't think that brands are well managed. Here is his plaint: **"Brands do not have to die. They can be murdered. And the marketing Draculas are draining the very lifeblood away from brands. Brands are being bargained, belittled, bartered and battered. Instead of being brand-asset managers, we are committing brand suicide through self-inflicted wounds of excessive emphasis on prices and deals."**

Another concern is that brand management structures may militate against carrying out effective customer relationship management (CRM) practices. Companies tend to overfocus and overorganize on the basis of their products and brands, and underfocus on managing their customers well. Call it *brand management myopia.*

Heidi and Don Schultz, marketing authors, believe that the consumer packaged goods (CPG) model for brand building is

increasingly inappropriate, especially for service firms, technology firms, financial organizations, business-to-business brands, and even smaller CPG companies.[9] They charge that the proliferation of media and message delivery systems has eroded mass advertising's power. They urge companies to use a different paradigm to build their brands in the New Economy.

- Companies should clarify the corporation's basic values and build the corporate brand. Companies such as Starbucks, Sony, Cisco Systems, Marriott, Hewlett-Packard, General Electric, and American Express have built strong corporate brands; their name on a product or service creates an image of quality and value.
- Companies should use brand managers to carry out the tactical work. But the brand's ultimate success will depend on everyone in the company accepting and living the brand's value proposition. Prominent CEOs—such as Charles Schwab or Jeff Bezos—are playing a growing role in shaping brand strategies.
- Companies need to develop a more comprehensive brand-building plan to create positive customer experiences at every touch point—events, seminars, news, telephone, e-mail, person-to-person contact.
- Companies need to define the brand's basic essence to be delivered wherever it is sold. Local executions can be varied as long as they deliver the feel of the brand.
- Companies must use the brand value proposition as the key driver of the company's strategy, operations, services, and product development.
- Companies must measure their brand-building effectiveness not by the old measures of awareness, recognition, and recall, but by a more comprehensive set of measures including customer perceived value, customer satisfaction, customer share of wallet, customer retention, and customer advocacy.

Business-to-Business Marketing

Most marketing is business-to-business (B2B) marketing even though textbooks and business magazines devote most of their attention to business-to-consumer (B2C) marketing. The disproportionate attention to B2C has been justified by saying that (1) B2C is where most of modern marketing concepts first arose, and (2) B2B marketers can learn a lot by adopting B2C thinking. While these two statements are true, B2B is having its own renaissance, and maybe B2C marketers have a lot to learn from B2B practices. B2B, in particular, has focused more on individual customers, and B2C is increasingly moving into one-to-one customer thinking.

The sales force is the main driver in B2B marketing. Its importance cannot be overestimated, especially when selling complex customized equipment such as B-47s or power plants or selling to large national and global accounts. Today's companies increasingly assign national and global *account managers* to manage their largest customers. Account management systems will grow in the future as more of the world's business becomes concentrated in fewer but larger companies.

But today B2B companies also are driven to replace high-cost sales calls with less expensive contact channels such as tele- and videoconferencing and Web-based communications, where possible.

As videoconferencing improves and costs come down, companies will reduce the number of field visits to customers and save on the high costs of transportation, hotels, dining out, and entertaining.

Another force that might reduce the role of the sales force is the growth of Web-based market exchanges. Price differences—especially for commodity materials and components—will become more visible, thus making it harder for salespeople to influence buyers to pay more than the market price. (See Sales Force and Selling.)

Change

Change, not stability, is the only constant. Companies today have to run faster to stay in the same place. Some say that if you remain in the same business, you will be out of business. Note that companies such as Nokia and Hewlett-Packard gave up their original businesses. Survival calls for self-cannibalization.

Your company has to be able to recognize Strategic Inflection Points, defined by Andy Grove of Intel as **"a time in the life of a business when its fundamentals are about to change."** Banks had to make changes with the advent of automated teller machines (ATMs), and major airlines have to make changes with the new competition coming from low-fare airlines.

Jack Welch at GE admonished his people: **"DYB: Destroy your**

business. . . . Change or die. When the rate of change inside the company is exceeded by the rate of change outside the company, the end is near."

Tom Peters' advice: **"To meet the demands of the fast-changing competitive scene, we must simply learn to love change as much as we hated it in the past."**

I have noticed that American and European businesspeople respond differently to change. Europeans see it as posing a threat. Many Americans see it as presenting opportunities.

The companies that fear change most are many of today's leading companies. As incumbents, they have invested so much in their present tangible assets that they tend to either ignore or fight the insurgents. Because they are big, they think they are built to last. But being big is no guarantee against becoming irrelevant, as Kmart, A&P, and Western Union discovered. If companies don't want to be left behind, they must anticipate change and lead change. The ability to change faster than your competitors amounts to a competitive advantage.

Richard D'Aveni, the author of *Hypercompetitive Rivalries*,[10] observed: **"In the end, there will be just two kinds of firms: those who disrupt their markets and those who don't survive the assault."**

But how do you change a company? How do you get your employees to adopt a new mind-set and give up their comfortable activities and learn new ones? Clearly top management must develop a new compelling vision and mission whose benefits for the various stakeholders appear far greater than the risk and cost of change. Top management must gather support and apply *internal marketing* to produce change in the organization.

The best defense in the face of change is to create a company that thrives on change. The company would see change as normal rather than as an interruption of the normal. And it would attract people who have positive attitudes toward change. It would institute open discussions of policy, strategy, tactics, and organization. The

worst thing is to be a company that dislikes change. Such a company will attract people who dislike change, and the end is inevitable.

As Reinhold Niebuhr stated: "God, give us grace to accept with serenity the things that cannot be changed, courage to change the things that should be changed, and the wisdom to distinguish the one from the other."

Communication and Promotion

Among the most important skills in marketing are communication and promotion. *Communication* is the broader term, and it happens whether planned or not. A salesperson's attire communicates, the catalog price communicates, and the company's offices communicate; all create impressions on the receiving party. This explains the growing interest in *integrated marketing communications (IMC)*. Companies need to orchestrate a consistent set of impressions from its personnel, facilities, and actions that deliver the company's brand meaning and promise to its various audiences.

Promotion is that part of communication that consists of company messages designed to stimulate awareness of, interest in, and purchase of its various products and services. Companies use adver-

tising, sales promotion, salespeople, and public relations to disseminate messages designed to attract attention and interest.

Promotion cannot be effective unless it catches people's attention. But today we are deluged with print, broadcast, and electronic information. We confront 2 billion Web pages, 18,000 magazines, and 60,000 new books each year. In response, we have developed routines to protect ourselves from information overload. We toss most catalogs and direct mail unopened into the wastebasket; delete unwanted and unread e-mail messages; and refuse to listen to telephone solicitations.

Thomas Davenport and John Beck point out in *The Attention Economy* that the glut of information is leading to attention deficit disorder (ADD), the difficulty of getting anyone's attention.[11] The attention deficit is so pronounced that companies have to spend more money marketing than making the product. This is certainly the case with new perfume brands and many new films. Consider that the makers of *The Blair Witch Project* spent $350,000 making the film and $11 million to market it.

As a result, marketers need to study how people in their target market allocate their attention time. Marketers want to know the best way to get a larger share of consumers' attention. Marketers apply attention-getting approaches such as high-profile movie stars and athletes; respected intermediaries close to the target audience; shocking stories, statements, or questions; free offers; and countless others.

Even then, there is a question of effectiveness. It is one thing to create awareness, another to draw sustained attention, and still another to trigger action. Attention is to get someone to spend time focusing on something. But whether this leads to buying action is another question.

Companies

It has been observed that there are four types of companies:

1. Those that make things happen.
2. Those that watch things happen and respond.
3. Those that watch things happen and don't respond.
4. Those that didn't notice that anything had happened.

No wonder the average company disappears within 20 years. Of the companies listed as best in the Forbes 100 of 1917, only 18 survived to 1987. And only two of them, General Electric and Eastman Kodak, were making good money.

And not all existing companies are truly alive. Companies fool us by merely breathing day to day. General Motors and Sears have been losing shares for years even though their hearts are still ticking. You can enter some companies and tell within 15 minutes whether they are alive or dead, just by looking at the employees' faces.

I no longer know what a large company is. Company size is relative. Boeing, Caterpillar, Ford, General Motors, Kellogg, Eastman Kodak, J. P. Morgan, and Sears are giant companies. But in early

2000 Microsoft Corporation achieved a market value that exceeded that of all eight companies combined.

What makes some companies great? There's a whole string of books ready to tell us the answer. Tom Peters and Bob Waterman started the guessing game with *In Search of Excellence* in 1982.[12] Of the 70 companies they nominated, many are moribund today. Then we heard from Jim Collins and Jerry Porras in *Built to Last* (1994),[13] Michael Treacy and Fred Wiersema in *The Discipline of Market Leaders* (1995),[14] Arie De Geus in *The Living Company* (1997),[15] and most recently from Jim Collins again in *Good to Great: Why Some Companies Make the Leap . . . and Others Don't* (2001).[16]

These books point out the many correlations of successful companies. But I have a simple thesis: Companies last as long as they continue to provide superior customer value. They must be market-driven and customer-driven. In the best cases, they are market-driving. They create new products that people may not have asked for but afterwards thank them for. Thanks to Sony for your Walkman, your smaller storage disks, your incredible camcorders, and your innovative computers.

Customer-oriented companies make steady gains in mind share and heart share, leading to higher market shares and in turn to higher profit shares.

Tom Siebel, CEO of Siebel Systems, has a simple but comprehensive view of what creates great companies. **"Focus on satisfying your customers, becoming a market leader, and being known as a good corporate citizen and a good place to work. Everything else follows."** (See Customer Orientation.)

Competitive Advantage

Michael Porter popularized the notion that a company wins by building a relevant and sustainable competitive advantage.[17] Having a competitive advantage is like having a gun in a knife fight.

This is true, but today most advantages don't stay relevant and few are sustainable. Advantages are temporary. Increasingly, a company wins not with a single advantage but by layering one advantage on top of another over time. The Japanese have been masters at this, first coming in with low prices, then with better features, then with better quality, and then with faster performance. The Japanese have recognized that marketing is a race without a finishing line.

Companies can build a competitive advantage from many sources, such as superiority in quality, speed, safety, service, design, and reliability, together with lower cost, lower price, and so on. It is more often some unique combination of these, rather than a single silver bullet, that delivers the advantage.

A great company will have incorporated a set of advantages that all reinforce each other around a basic idea. Wal-Mart, IKEA, and Southwest Airlines have unique sets of practices that enable them to charge the lowest prices in their respective industries. A competitor that copies only a few of these practices will not succeed in gaining an advantage.

Recognize that competitive advantages are relative, not absolute.

If the competition is improving by 30 percent and you by 20 percent, you are losing competitive advantage. Singapore Airlines kept improving its quality, but Cathay Pacific was improving its quality faster, thereby gradually closing the gap with Singapore Airlines.

Competitors

All firms have competitors. Even if there were only one airline, the airline would have to worry about trains, buses, cars, bicycles, and even people who might prefer to walk to their destinations.

The late Roberto Goizueta, CEO of Coca-Cola, recognized Coke's competitors. When his people said that Coke's market share was at a maximum, he countered that Coca-Cola accounted for less than 2 ounces of the 64 ounces of fluid that each of the world's 4.4 billion people drank every day. **"The enemy is coffee, milk, tea, water,"** he told his people. Coca-Cola is now a major seller of bottled water.

The more success a company has, the more competition it will attract. Most markets are brimming with whales, barracudas, sharks, and minnows. In these waters, the choice is to eat lunch or be lunch. Or, using computer scientist Gregory Rawlins' metaphor: **"If you're not part of the steamroller, you're a part of the road."**

Hopefully your company will attract only good competitors. Good competitors are a blessing. They are like good teachers who raise our sights and sharpen our skills. Average competitors are a nuisance. Bad competitors are a pain to every decent competitor.

A company should never ignore its competitors. Stay alert. **"Time spent in reconnaissance is seldom wasted,"** noted Sun Tzu in the fourth century B.C. And your *allies* should stay alert. If you are going to be an effective competitor, you must also be an effective *co-operator*. You are not a solo business but a partnership, a network, an extended enterprise. Competition today is increasingly between networks, not companies. And your ability to spot faster, learn faster, and work faster as a network is a key competitive advantage.

In the short run, the most dangerous competitors are those that resemble your company the most. The customers can't see the difference. Your company is a toss-up in their mind. So differentiate, differentiate, differentiate.

According to marketing guru Theodore Levitt: **"The new competition is not between what companies produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people value."**[18]

The way to beat your competitors is to attack yourself first. Work hard to make your product line obsolete before your competitors do.

Watch your distant competitors as well as your close ones. My guess is that your company is more likely to be buried by a new disruptive technology than by nasty look-alike competitors. Most fatal competition will come from a small competitor who burns with a passion to change the rules of the game. IBM made the mistake of worrying more about Fujitsu than a nobody named Bill Gates who was working on software in his garage.

As important as it is to watch your competitors, it is more important to obsess on your customers. Customers, not competitors, determine who wins the war. Most markets are plagued by too many fishermen going after too few fish. The best fishermen understand the fish better than their competitors do.

Consultants

Consultants can play a positive role in helping companies reappraise their market opportunities, strategies, and tactics. Consultants provide a client company with an outside-in view to correct the company's tendency to take an inside-out view.

Yet some managers say: "If we are successful, we don't need consultants. If we are unsuccessful, we can't afford them."

We need fewer *consultants* and more *resultants.* Too many consultants give you advice and fail to grapple with the difficult problem of implementing the recommendations. Keep the consultant and pay him or her according to results.

Here is a test for finding a good consultant. Ask each consultant, "What time is it?"

- The first consultant says: "It is exactly 9:32 A.M. and 10 seconds." Hire him if you want an accurate, fact-filled study.
- The second consultant answers: "What time do you want it to be?" Hire him if you don't want advice so much as corroboration.
- The third consultant answers: "Why do you want to know?" Hire him if you want some original thinking, such as defin-

ing the problem more carefully. Peter Drucker says that his greatest strength as a consultant is to be ignorant and ask a few basic questions.

There is a lot of cynicism about consultants. As early as the first century B.C., Publilius Syrus, a Latin writer, noted: **"Many receive advice, few profit by it."** Robert Townsend, former CEO of Avis Rent-A-Car, described consultants as **"people who borrow your watch and tell you what time it is and then walk off with the watch."** William Marsteller, of Burson-Marsteller public relations, added: **"A consultant is a person who knows nothing about your business to whom you pay more to tell you how to run it than you could earn if you ran it right instead of the way he tells you."**

The cynicism simply means that there are good and bad consultants and your task is to be able to tell the difference.

Corporate Branding

There is great payoff in building a strong corporate brand. Sony can put its name on any electronic device and customers will prefer it to the competition. Virgin can enter almost any business and be successful because its name means brings a fresh approach to that business.

The major requirement for corporate branding is for the company to stand for something, whether it is quality, innovation, friendliness, or something else. Take Caterpillar, the heavy con-

struction equipment manufacturer. Caterpillar's brand personality triggers such associations as hardworking, resilient, tough, bold, and determined. So Caterpillar has been able to launch Cat jeans, sandals, sunglasses, watches, and toys, all designed with the same traits in mind.

A strong corporate brand needs good image work in terms of a theme, tag line, graphics, logo, identifying colors, and advertising dollars. But the company shouldn't overrely on an advertising approach. Corporate image is more effectively built by company performance than by anything else. Good company performance plus good PR will buy a lot more than corporate advertising.

Creativity

Companies formerly won their marketing battles through superior efficiency or quality. Today they must win through superior creativity. One does not win through *better sameness*; one wins through *uniqueness*. Winning companies such as IKEA, Harley Davidson, and Southwest Airlines are unique.

Uniqueness requires developing a culture that honors creativity. There are three ways to increase your company's creativity:

1. Hire more naturally creative people and give them free rein.
2. Stimulate creativity in your organization through a myriad of well-tested techniques.

3. Contract for creativity help. Go to Brighthouse in Atlanta, Faith Popcorn in New York, or Leo Burnett in Chicago, for example, and get help in finding a breakthrough idea.

See the box for descriptions of some of the leading creativity techniques that can be used in-house.

Creativity Techniques

- *Modification analysis.* With respect to some product or service, consider ways to adapt, modify, magnify, minify, substitute, rearrange, reverse, or combine.
- *Attribute listing.* Define and modify the attributes of the product. For example, in seeking to build a better mousetrap, consider ways to improve bait, method of execution, method of hearing execution, method of removal, shape, material, price.
- *Forced relationships.* Try out new combinations. For example, in trying to build a new type of office furniture, consider combining a desk and a bookcase, or a bookcase and a filing system.
- *Morphological analysis.* Play with the basic dimensions of the problem. For example, in trying to move something from one point to another, consider the type of vehicle (cart, chair, sling, bed), the medium in which/by which the vehicle operates (air, water, oil, rollers, rails), and the power source (compressed air, engine, steam, magnetic field, cable).
- *Product problem analysis.* Think of all the problems that a specific product has. For example, chewing gum loses its

flavor too quickly, may cause dental cavities, and is hard to dispose of. Think of solutions to these problems.

- *Decision trees.* Define the set of decisions that are to be made. For example, to develop a new grooming aid, decide on the user (men or women); type of aid (deodorant, shaving product, cologne); type of package (stick, bottle, spray); market (commercial, gift); and channel (vending machines, retailers, hotel rooms).
- *Brainstorming.* Gather a small group and pose a problem, such as, "Find new products and services that homes might need." Encourage freewheeling thinking, stimulate a maximum number of ideas, try new combinations, and avoid criticism at the beginning.
- *Synectics.* Pose a generic problem, such as how to open something, before posing the real one, hoping that it broadens the thinking.

A major source of ideas can come from futurists such as Alvin Toffler, John Naisbet, and Faith Popcorn and the trends they have spotted. Faith Popcorn became famous for her creative labeling of trends, including *anchoring* (religion, yoga), *being alive* (vegetarianism, meditation), *cashing out*, *clanning*, *cocooning*, *down-aging*, *fantasy adventure*, *99 lives* (multitasking), *pleasure revenge*, *small indulgences*, and *vigilant consumers.* She would consult on how aligned a company's strategy is with these major trends, and often tell a company that it is off-trend in several ways.

Smart companies set up *idea markets.* They encourage their employees, suppliers, distributors, and dealers to offer suggestions that will save costs or yield new products, features, and services. They es-

tablish high-level committees that collect, evaluate, and choose the best ideas. And they reward those who suggest the best ideas. Alex Osborn, the developer of brainstorming, said: **"Creativity is so delicate a flower that praise tends to make it bloom, while discouragement often nips it in the bud."**

It is sad that creativity probably peaks at age 5 and then children go to school only to lose it. The educational emphasis on left brain cognitive learning tends to undernurture the creative right brain.

Customer Needs

Marketing's original mantra is to "find needs and fill them." The company finds needs by listening to or interviewing customers and then prepares an appropriate solution to each need. Today, however, there are few needs that companies don't know about or address. Pietro Guido, an Italian marketing consultant, wrote a book called *The No-Need Society* to make this point.

But there is another answer to the "no-need society"—that is, to create new needs. Sony's Akio Morita, in his *Made in Japan*, said: **"We don't serve markets. We create markets."** Consumers never thought of videotape recorders, video cameras, fax machines, Palms, and so on, until they were made.

Of course, new needs will emerge even if the old ones are satis-

fied. *Events* can create new needs. The tragedy of September 11, 2001, increased the need for greater security in the air, food supply, and transportation and the country rapidly responded with new security measures. *Trends* can create new needs, such as the interest in "Down-Aging." As people get older they want to feel and look younger, and this leads to buying sports cars, having plastic surgery, and using exercise equipment. So we can distinguish between existing needs and latent needs. Smart marketers will attempt to anticipate the next need and not only confine their attention to today's need.

Sometimes a need is obscured because a company has taken too limited a view of customers. Certain dogmas get set in concrete, such as the cosmetics industry dogma that women basically use cosmetics in order to be more attractive to men. Along came Anita Roddick, who started The Body Shop with the assumption that many women want products that will give good care to their skin. She added another value: that many women care about social issues and will patronize a company that cares.[19]

Greg Carpenter and Kent Nakamoto have challenged a core assumption of marketers that buyers initially know what they want.[20] Instead they *learn* what they want. And companies play a strong role in teaching buyers what to want. Different brand competitors add new features to their computers, cameras, and cellular phones that buyers may not have known of or asked for, and in the process, buyers form a better idea of what they want. Such companies are not just *market driven* (by customer needs), but are *market driving* (by innovation). In this sense, competition is less a race to meet consumer needs and more a race to define these needs.

One reason that early market entrants (such as Xerox or Palm) often gain sustained market leadership is because the attributes they initially build into their products define the wants that were otherwise ill-defined. Consumers see the attributes as defining the category. Late-entry competitors are forced to supply the same attributes at a minimum as well as innovate new ones.

Customer Orientation

How do you get your whole company to think and breathe customer? Jan Carlzon, former CEO of Scandinavian Airlines System (SAS), wrote *Moments of Truth*, in which he described how he got his whole workforce to focus on the customer.[21] He would emphasize at meetings that SAS handled 5 million customers a year and the average customer met about five SAS employees in connection with a single journey. This amounted to 25 million *moments of truth*, moments to deliver a positive brand experience to customers, whether delivered in person, over the phone, or by mail. Carlzon went further. He embarked on changing the company's structure, systems, and technology to empower the workforce to take any steps necessary to satisfy its target customers.

Today's CEOs must show employees, in financial terms, how much more affluent they and the firm would be if everyone focused on delivering great value to customers. The customers would spend more and cost the firm less to serve. Everyone would benefit, and special rewards would go to employees who rendered outstanding customer service.

The task begins with hiring the right people. You have to assess whether job candidates have not only the right skills but also the right attitudes. I was always struck by the fact that most people chose to fly Delta Air Lines from Chicago to Florida when they could have chosen

Eastern Airlines, which offered the same flight schedule. The difference: Delta hired its flight crews from the Deep South where friendliness is the norm; Eastern hired its flight crew from New York City.

Those whom you hire need good training. Disney runs a training program that lasts a week in order to convey what experience the company wants customers to have at Disneyland. A customer mind-set doesn't just happen. It has to be planned, implemented, and rewarded.

Yet companies tend to give two conflicting messages to their people. L. L. Bean and other companies train their people to value every customer: The customer comes first. Meanwhile they recognize that customers differ in their value to the company (i.e., what they add to revenue) and should therefore receive different levels of treatment.

> American Airlines treats its customers differently beyond assigning different size seats and different cuisine. Passengers who have accumulated millions of miles get Executive Platinum Advantage treatment: they enter a shorter line at check-in, board earlier, get frequent upgrades, and receive surprise gifts such as interesting books and crystal Tiffany glassware.

The conclusion: Treat every customer with care but not necessarily equally.

To be truly customer-oriented, the firm should be run by *customer managers* (or customer group managers), not *brand managers.* They will find out the set of company products and services that their customers would care about and then work with the product and brand managers to deliver them.

Too many companies are *product driven* rather than *customer centered*. Their thinking goes like this:

Assets → Inputs → Offerings → Channels → Customers

Being product driven and heavily invested in assets, they push their offerings to every conceivable customer and fail to notice customer differences and values. Not knowing much about individual customers, they cannot efficiently *cross-sell* or *up-sell.* Both processes require capturing transaction and other information on individual customers and inferring what else they might be interested in. A customer-oriented company visualizes a different approach, called *sense-and-respond marketing*:

Customers → Channels → Offerings → Inputs → Assets

By starting with an understanding of customers, the company is in a much better position to develop appropriate channels, offerings, inputs, and assets.

Customer Relationship Management (CRM)

Everyone is talking about *customer relationship management (CRM)* as the new panacea. Yet it is an empty term until it is defined. Some people define it as the application of technology to learning more about each customer and being able to respond to them one-to-one. Others don't see it as a technology issue but rather a humane issue:

treating each customer with empathy and sensitivity. One cynic said that CRM is an expensive way to learn what otherwise might be learned by chatting with customers for five minutes.

Customer relationship marketing, in practice, involves the purchase of hardware and software that will enable a company to capture detailed information about individual customers that can be used for better target marketing. By examining a customer's past purchases, demographics, and psychographics, the company will know more about what the customer might be interested in. The company will send specific offers only to those with the highest possible interest and readiness to buy, and will save all the mailing or contact costs usually lost in mass marketing. Using the information carefully, the company can improve customer acquisition, cross-selling, and up-selling.

Yet CRM has not worked out that well in practice. Large companies sometimes spend $5 million to $10 million on CRM systems only to find disappointing results. Less than 30 percent of CRM-adopting companies report achieving the expected return from their CRM investments. And the problem isn't software failure (only 2 percent of the cases). *CRM-Forum* reported the following causes of failure: organizational change (29 percent), company politics/inertia (22 percent), lack of CRM understanding (20 percent), poor planning (12 percent), lack of CRM skills (6 percent), budget problems (4 percent), software problems (2 percent), bad advice (1 percent), other (4 percent).[23]

Too many companies see technology as a silver bullet that will help them overcome their bad habits. But adding new technology to an old company only makes it a more expensive old company. Companies should not invest in CRM until they reorganize to become customer-centric companies. Only then will they and their employees know how to use CRM properly.

Frederick Newell goes further and accuses CRM of falling far short of the answer to serving customers well.[24] CRM puts the company in the driver's seat with a hunting gun instead of putting the customer in the driver's seat with a hunting gun. He wants companies to *empower* customers, not *target* them. Instead of companies

just sending mailings to sell their products (a product-centered approach), they need to ask their customers what they are interested in (and not interested in), what information they would like, what services they would want, and how, when, and how often they would accept communications from the company. Instead of relying on information about customers, companies can rely on information *from* customers. With this information, a company would be in a much better position to make meaningful offers to individual customers with much less waste of company money and customer time. Newell advocates replacing *customer relationship marketing (CRM)* with *customer management of relationships (CMR)*.

My belief is that the right kind of CRM or CMR is a positive development for companies and for society as a whole. It will humanize relationships. It will make the market work better. It will deliver better solutions to customers. (Also see Database Marketing.)

Customers

We now live in a customer economy where the customer is king. This is a result of production overcapacity. It is customers, not goods, that are in short supply.

Companies must learn how to move from a *product-making focus* to a *customer-owning focus.* Companies must wake up to the fact that they have a new boss—the customer. If your people are not

thinking customer, they are not thinking. If they are not directly serving the customer, they'd better serve someone who is. If they don't take care of your customers, someone else will.

Companies must view the customer as a financial asset that needs to be managed and maximized like any other asset. Tom Peters sees customers as an "appreciating asset." They are the company's most important asset, and yet their value is not even found in the company's books.

Recognizing the value of this asset will hopefully lead companies to redesign their total marketing system toward capturing *customer share* and *customer lifetime value* through their products/services portfolio and branding strategies.

Over 30 years ago, Peter Drucker emphasized the importance of customer thinking to the success of a firm. He said that the purpose of a company is **"to create a customer. Therefore the business has two—and only two—basic functions: marketing and innovation. Marketing and innovation produce results: all the rest are costs."**[22]

L. L. Bean, the outdoor mail order firm, wholeheartedly practices a customer-oriented credo: **"A customer is the most important visitor on our premises. He is not dependent on us—we are dependent on him. He is not an outsider in our business—he is a part of it. We are not doing him a favor by serving him . . . he is doing us a favor by giving us the opportunity to do so."**

Products come and go. A company's challenge is to hold on to its customers longer than it holds on to its products. It needs to watch the *market life cycle* and the *customer life cycle* more than the *product life cycle*. Someone at Ford realized this: **"If we're not customer driven, our cars won't be either."**

Regrettably, companies spend most of their effort in acquiring new customers and not enough in retaining and growing business from their current customers. Companies spend as much as 70 percent of their marketing budget to attract new customers while 90 percent of their revenues come from current customers. Many companies lose money on their new customers during the first few years. By

overfocusing on acquiring new customers and neglecting current customers, companies experience a customer attrition rate of between 10 and 30 percent a year. Then they waste further money on a never-ending effort to attract new customers or win back ex-customers to replace those they just lost.

Companies emphasize customer acquisition at the expense of customer retention in several ways. They set up compensation systems that reward getting new customers and do not reward salespeople as visibly for maintaining and growing existing accounts. Thus salespeople experience a thrill from winning a new account. Companies also act as if their current customers will stay on without special attention and service.

What should our aim be with customers? First, follow the Golden Rule of Marketing: *Market to your customers as you would want them to market to you*. Second, recognize that your success depends on your ability to make your customers successful. Aim to make your customers better off. Know their needs and exceed their expectations. Jack Welch, retired CEO of GE, put it this way: **"The best way to hold your customers is to constantly figure out how to give them more for less."** And remember, customers are increasingly buying on value, not on relationship alone.

It isn't enough to just satisfy your customers. Being satisfied is no longer satisfying. Companies always lose some satisfied customers. These customers switch to competitors who can satisfy them more. A company needs to deliver more satisfaction than its competitors.

Exceptional companies create delighted customers. They create *fans*. Take a lesson from Harley Davidson and the customer who said that he would rather give up smoking and other vices than be without a Harley.

Tom Monaghan, billionaire founder of Domino's Pizza, wants to make fans out of his customers. **"Whenever I see a new customer walk through the door, I see $10,000 burnt into their forehead."**

How do you know if you are doing a good job for the cus-

A German bank operated many branches throughout Germany. Each branch was deliberately kept small. Each branch manager had one task: to help clients increase their wealth. The branch manager did not simply take their deposits and make loans. The branch manager taught them how to save better, invest better, borrow better, and buy better. Each branch carried magazines on these subjects and offered free investment seminars to its customers, all to give them the skills to accumulate more wealth.

tomer? It is not shown in your profits this year but in your share of the customer's mind and heart. Companies that make steady gains in mind share and heart share will inevitably make gains in market share and profitability.

Marketing thinking is shifting from trying to maximize the company's profit from each transaction to maximizing the profit from each relationship. Marketing's future lies in *database marketing*, where we know enough about each customer to make relevant and timely offers customized and personalized to each customer. Instead of seeing a customer in every individual, we must see the individual in every customer.

But while it is important to serve all customers well, this does not mean that they must all be served equally well. All customers are important, but some are more important than others. Customers can be divided into those we enjoy, those we endure, and those we detest. But it is better to divide them into financial categories: platinum, gold, silver, iron, and lead customers. The better customers should be given more benefits, both to retain them longer and to give other customers an incentive to migrate upward.

One bank runs a club to which it invites only its high-asset depositors. Quarterly meetings are held, part social, part educational. The members hear from financial gurus, entertainers, and personalities. They would hate to lose their memberships by switching banks.

A company should classify its customers another way. The first group consists of the *Most Profitable Customers (MPCs)*, who deserve the most current attention. The second group are the *Most Growable Customers (MGCs)*, who deserve the most long-run attention. The third group are the *Most Vulnerable Customers (MVCs)*, who require early intervention to prevent their defection.

Not all customers, however, should be kept. There is a fourth category called *Most Troubling Customers (MTCs)*. Either they are unprofitable or the profits are too low to cover their nuisance value. Some should be "fired." But before firing them, give them a chance to reform. Raise their fees and/or reduce their service. If they stay, they are now profitable. If they leave, they will bleed your competitors.

Some customers are profitable but tough. They can be a blessing. If you can figure out how to satisfy your toughest customers, it will be easy to satisfy the rest.

Pay attention to customer complaints. Never underestimate the power of an irate customer to damage your reputation. Reputations are hard to build and easy to lose. IBM calls receiving complaints a joy. Customers who complain are the company's best friends. A complaint alerts the company to a problem that is probably losing customers and hopefully can be fixed.

Customer Satisfaction

Most companies pay more attention to their market share than to their customers' satisfaction. This is a mistake. Market share is a backward-looking metric; customer satisfaction is a forward-looking metric. If customer satisfaction starts slipping, then market share erosion will soon follow.

Companies need to monitor and improve the level of customer satisfaction. The higher the customer satisfaction, the higher the retention. Here are four facts:

1. Acquiring new customers can cost 5 to 10 times more than the costs involved in satisfying and retaining current customers.
2. The average company loses between 10 and 30 percent of its customers each year.
3. A 5 percent reduction in the customer defection rate can increase profits by 25 to 85 percent, depending on the industry.
4. The customer profit rate tends to increase over the life of the retained customer.[25]

One company bragged that 80 percent of its customers are satisfied or highly satisfied. This sounded pretty good until it learned

that its leading competitor attained a 90 percent customer satisfaction score. The company was further dismayed to learn that this competitor was aiming for a 95 percent satisfaction score.

Companies that achieve a high satisfaction score should advertise it. J. D. Powers gave the Honda Accord the number one rating in customer satisfaction for several years, and this helped sell more Accords. Dell achieved the highest satisfaction ratings for its computer service and advertised this in its ads, giving prospects confidence that they could trust ordering a computer sight unseen from Dell.

The importance of aiming for high customer satisfaction is underscored in company ads. Honda says: **"One reason our customers are so satisfied is that we aren't."** Cigna advertises, **"We'll never be 100% satisfied until you are, too."** But don't make too big a claim. Holiday Inns ran a campaign a few years ago that promised "No Surprises." Guest complaints were so high that the slogan "No Surprises" was mocked, and Holiday Inn quickly canceled this slogan.

Customer satisfaction is a necessary but not sufficient goal. Customer satisfaction only weakly predicts customer retention in highly competitive markets. Companies regularly lose some percentage of their satisfied customers. Companies need to focus on customer retention. But even retention can be misleading, as when it is based on habit or an absence of alternative suppliers. A company needs to aim for a high level of customer loyalty or commitment. Loyal packaged-goods customers, for example, generally pay 7 percent to 10 percent more than nonloyal customers.

The company should therefore aim to delight customers, not simply satisfy them. Top companies aim to exceed customer expectations and leave a smile on customers' faces. But if they succeed, this becomes the norm. How can a company continue to exceed expectations after these expectations become very high? How many more surprises and delights can a company create? Interesting question!

Database Marketing

At the heart of CRM is database marketing. Your company needs to develop separate databases on customers, employees, products, services, suppliers, distributors, dealers, and retailers. The databases make it easier for marketers to develop relevant offerings for individual customers.

In building the customer database, you have to decide on what information to collect.

- The most important information to capture is the *transaction history* of each buyer. Knowing what a customer has purchased in the past affords many clues as to what he or she might be interested in buying next time.
- You could benefit by collecting *demographic* information about each buyer. For consumers, this means age, education, income, family size, and other attributes. For business buyers, this means job position, job responsibilities, job relationships, and contact addresses.
- You may want to add *psychographic* information describing the activities, interests, and opinions (AIO) of individual customers and how they think, make decisions, and influence others.

The second challenge is to get this information. You train your salespeople to gather and enter useful information into the customer's file after each sales visit. Your telemarketers can gather additional information by phoning customers or credit rating agencies.

The third challenge is to maintain and update the information. About 20 percent of the information in your customer database can become obsolete each year. You need telemarketers to phone a sample of customers each working day to update the information.

The fourth challenge is to use the information. Many companies fail to use the information they have. Supermarket chains have mountains of scanner data on individual customer purchases but fail to use these data for one-to-one marketing. Banks collect rich transaction information that mostly goes unanalyzed. At the very least, these companies need to hire a person skilled in *data mining*. By applying advanced statistical techniques, the data miner might detect interesting trends, segments, and opportunities.

With all these benefits, why don't more companies adopt database marketing? All this costs money. Consultant Martha Rogers of Peppers & Rogers Group does not deny the costs: **"Establishing a rich data warehouse can cost millions of dollars for the technology and the associated implementation and process changes. Throw in a few hundred thousand for strategic consulting, a little more for various data integration and change management issues, and voilà, you've got yourself one hefty investment."**[26]

Clearly one-to-one marketing is not for everyone. It is not for companies that sell a product purchased once in a lifetime, such as a grand piano. It is not for mass marketers like Wrigley to gather individual information about the millions of its gum-chewing customers. It is not for companies with small budgets, although the investment costs can be scaled down somewhat.

However, companies such as banks, telephone companies, business equipment firms, and many others normally collect lots of infor-

mation on individual customers or dealers. The first company in each of these respective industries to exploit database marketing could achieve a substantial competitive lead.

There is a growing threat to effective database marketing that is coming from the inherent conflict between customer and company interests (see box).

What Customers Want

- We want companies not to have extensive personal information about us.
- We would be willing to tell some companies what we might like to be informed about.
- We would want companies to reach us only with relevant messages and media at proper times.
- We would want to be able to reach companies easily by phone or e-mail and get a quick response.

What Companies Want

- We want to know many things about each customer and prospect.
- We would like to tempt them with offers, including those that they might not have awareness of or initial interest in.
- We would like to reach them in the most cost-effective way regardless of their media preferences.
- We want to reduce the cost of talking with them live on the phone.

The irony is that as companies learn more about each customer in order to make more relevant offers, customers see this as an invasion of privacy. The matter is made worse by intrusive junk mail, junk phone calls, and junk e-mail. As privacy concerns rise and lead to legislation curtailing what companies may know about individual customers and how the companies can reach customers, companies will be forced to return to less efficient mass marketing and transaction-oriented marketing.

One answer is for companies to practice *permission marketing*, as promoted by Seth Godin.[27] You should ask your customers what information they will volunteer, what messages they would accept, and what contact media they would prefer.

Design

Design is a big idea, covering product design, service design, graphic design, and environmental design. Design provides a set of tools and concepts for preparing successful products and services. Yet too few managers know what design is or value it. At best, they equate design with style. Style is important, of course: We must accept that the Jaguar automobiles' success in the past was based on style. It certainly wasn't based on dependability,

since most Jaguars had to be repaired frequently. An acquaintance of mine always owned two Jaguars, because one was usually in the repair shop.

Style, or appearance, does play a major role in many products: Apple's new computers, Bang & Olufsen's stereo equipment, Montblanc's writing instruments, Coca-Cola's famous bottle, and so on. Style can play a major role in differentiating your product from other products.

But design is a larger idea than how a product looks. A well-designed product, in addition to being attractive, would meet the following criteria:

- Easy to open the packaging.
- Easy to assemble.
- Easy to learn how to use.
- Easy to use.
- Easy to repair.
- Easy to dispose of.

Just consider "Easy to learn how to use." I recently purchased HP/Compaq's iPAQ, the personal digital assistant handheld computer. I couldn't remove a cellophane covering (not mentioned in the booklet) nor open the device's protective plastic cover nor figure out how to switch the cover to the other side. I couldn't figure out how to switch the data from my Palm handheld to my new iPAQ, something that most new buyers would want to do. After finally switching the data with the help of a friend, I encountered numerous screens that were hard to understand or perform operations on. The booklet, whose print could be read only under a microscope, was of no help. The whole product was a design fiasco, committed by engineers who thought they were selling it to engineers. I returned quietly to my beloved Palm and let the iPAQ languish.

This boils down to the fact that great design requires thinking

through all of the customer's activities in acquiring, using, and disposing of the product. The most basic thing is to know who the target customer is. I remember a company that designed a floor-cleaning machine to be used after hours to clean offices. The machine looked great and had nice features. But the machine didn't sell. The machine could easily be pushed by the average man but was too heavy to be pushed by most women. It turned out that many of the users would be women, and this had been overlooked by the designers.

Toyota is smarter about defining the customer and thinking like the customer. In designing new doors for a car targeted largely toward women, Toyota engineers put on long fingernails to see how this would affect opening and closing the doors.

Some companies—Gillette, Apple, Sony, Bang & Olufsen—have appointed a high-level vice president of design to add value to every product their companies create. By establishing this position, they are announcing to everyone the importance of design to the success of their products.

Design applies to service businesses as well as products. Walk into Starbucks for coffee and you will appreciate the role of environmental design. Dark wood counters, bright colors, fine textures. Walk into a Ritz-Carlton hotel and appreciate the lobby's regal quality.

Differentiation

The stock market is a perfect example of an undifferentiated market. If you want to buy 100 shares of IBM, you will buy it at the lowest price. There may be 1,000 people ready to sell shares of IBM. All you care about is who will charge the least. No characteristic of the seller—how long he/she has held the shares, whether he/she cheats on income tax or spouse, what his/her religion is—matters to you.

We say that a product market resembles a commodity market when we don't care whose product or brand we take ("They are all the same") or we don't need to know anything about the seller. Thus we would say that oranges in a supermarket amount to a commodity if they all look alike and we don't care to know the grower or the orchard.

But there are three things that could violate the assumption of an undifferentiated market.

- First, the products may look different. In the case of oranges, they may come in different sizes, shapes, colors, and tastes, and with different prices. We can call this *physical differentiation*.
- Second, the products may bear different brand names. We call this *brand differentiation*. Oranges carry brand names such as Sunkist or Florida's Best.

- Third, the customer may have developed a satisfying relationship with one of the suppliers. We call this *relationship differentiation*. For example, although the brands are well known, one company may have provided better and faster answers to the customer's questions.

Harvard's Theodore Levitt threw down the gauntlet when he said: **"There is no such thing as a commodity. All goods and services are differentiable."**[28] He saw commodities as simply products waiting for a redefinition. Frank Perdue, who produces one of the most popular brands of chicken, would boast: **"If you can differentiate a dead chicken, you can differentiate anything."** No wonder one professor tells his MBA class that any student who uses the word "commodity" during a case discussion would be fined $1.

Yet some companies believe they can win through pure will power. Some years ago, the runner-up razor blade manufacturer in Brazil challenged Gillette, the market leader. We asked the challenger if his company offered the consumer a better razor blade. "No" was the reply. "A lower price?" "No." "A better package?" "No." "A clever advertising campaign?" "No." "Better allowances to the trade?" "No." "Then how do you expect to take share away from Gillette?" "Sheer determination" was the reply. Needless to say, the offensive failed.

Tom Peters broadcasts the mantra: **"Be distinct or extinct."** But not every difference is distinctive. Establish "meaningful differences, not better sameness."

Differentiation can be achieved in many ways (see box).

Jack Trout's book, *Differentiate or Die*, shows dozens of ways companies have managed to produce a differentiated product, service, experience, or image in the minds of customers.[29]

Greg Carpenter, Rashi Glazer, and Kent Nakamoto, don't even hold that the differentiation needs to be meaningful.[30] For some products, such as detergents, all the valuable attributes may have al-

How to Differentiate

- *Product* (features, performance, conformance, durability, reliability, repairability, style, design).
- *Service* (delivery, installation, customer training, consulting, repair).
- *Personnel* (competence, courtesy, credibility, reliability, responsiveness, communication skill).
- *Image* (symbols, written and audio/video media, atmosphere, events).

ready been discovered and exploited. They argue that "meaningless differentiation" can work. For example, Alberto Culver makes a shampoo called Natural Silk to which it does add silk, despite admitting in an interview that silk does nothing for hair. But this kind of attribute attracts attention, creates a distinction, and implies a better working formula.

Direct Mail

When direct mail is at its worst, it consists of a cold mailing to a list of names and addresses with the hope of hitting a 1 to 2 percent response. The response is low because the message doesn't go to people with a need for the product or arrive at the time they need it. Hence the term "junk mail."

When direct mail is refined, the company segments the list, finds the best prospects, and limits the mailing to them. In this way, the company saves money with a smaller mailing and achieves a higher response rate.

Most mailings focus on achieving a single sale. They lack anything related to building a customer relationship and an emotional bond.

The best case is where the company's offers satisfy the customers and where the company mails neither too frequently nor too infrequently and becomes a respected supplier of a certain set of satisfying products and services.

What I can't understand is why I receive the same catalogs over and over even though I never buy anything. Don't they notice this? Why don't they send an e-mail asking whether I want to continue receiving their catalog? This is the essence of permission marketing, and it would save these catalog companies a lot of money.

Distribution and Channels

For many companies, making the product doesn't cost as much as bringing it to the market! Farmers know this well when they see how small a percentage of the final retail price they receive for their crops. Marketing in many cases now averages 50 percent of total company costs. Producers would like to eliminate the middleman, whom they see as charging too much. But while you can eliminate the middleman, you cannot eliminate the functions he performs. You and/or the customer would have to perform the same functions and probably wouldn't do them as well.

How can a company bring its new products into the market? Every company has to figure out a *go-to-market strategy*. In simpler times, the company would hire salespeople to sell to distributors, wholesalers, retailers, or directly to final users. Today the number of go-to-market alternatives has exploded:

Field sales reps	Intranet
Strategic allies	Extranet
Business partners	Web sites
Master or local distributors	E-mail
Integrators	Business-to-business exchanges
Value-added resellers	Auctions

Manufacturers' agents	Fax machines
Brokers	Direct mail
Franchises	Newspapers
Telemarketers	Television
Telesales agents	

No wonder Peter Drucker said: **"The greatest change will be in distribution channels, not in new methods of production or consumption."** Choosing the right channels, convincing them to carry your merchandise, and getting them to work as partners is a major challenge. Too many companies see themselves as selling to distributors, instead of selling *through* them.

How many marketing channels should a company use to distribute its products and services? The higher the number of channels, the greater the company's *market coverage* and rate of growth of its sales. This principle is well illustrated by Starbucks Coffee Company. Starbucks started with only one channel, namely company-owned stores that were staffed carefully and operated profitably. Later Starbucks franchised operations in other venues: airports, bookstores, and college campuses. The company recently signed a licensing agreement with Albertson's food chain to open coffee bars in its supermarkets. Not only is Starbucks coffee served in these venues, but other Starbucks products are sold along with coffee. A comedian quipped about Starbucks: "I don't know how fast they are growing but they just opened one in my living room." Adding more channels creates rapid growth.

But at least two problems can arise in adding new market channels. First, product or service quality may suffer because the company gained market coverage at the expense of *market control*. Does Starbucks coffee served on a United Air Lines flight taste as good as a cup made and served in a Starbucks store? Do all vendors remember to dispose of Starbucks coffee if it isn't sold within two hours? Secondly, the company may encounter growing problems of *channel*

conflict. Some Starbucks outlets may complain that the company franchised nearby outlets to also sell Starbucks coffee, thus hurting their sales. Or that some outlets are charging less for Starbucks coffee than other outlets. In both cases, Starbucks would have gained increased market coverage but lost some market control.

The alternative is to stick to one channel and develop it with very tight controls. For example, the Rolex Watch Company could easily place its famous watches in many more outlets. Instead it restricts its coverage to only high-end jewelers who are spaced geographically and who agree to carry a certain level of inventory, use certain display patterns, and place specific levels of annual local advertising. Rolex thus has achieved high market control and does not face poor service problems or channel conflict problems. But its market growth is slower.

Whatever the number of market channels a company uses, it must integrate them to achieve an efficient supply system. Most companies rely on a high percentage of their business results coming from their channel partners. They need to systematize *partner relationship management (PRM)* through adopting PRM software. The software can improve the information flow and reduce the cost of communication, ordering, transactions, and payment.

Manufacturers who use distributors to reach retailers give up some control of the retailers and the final customers. Yet if the manufacturer sold direct to either the retailers or the final customers, it would have to carry on the same channel functions of selling, financing, information gathering, servicing, risk taking, transportation, and storage. If distributors can do this better and add value, then the distributor channel is justified. The key point is that all the channel functions must be performed and allocated efficiently among the channel partners.

A company operating multiple channels must operate them with similar policies. A bookstore chain such as Borders must have its brick-and-mortar stores be prepared to also accept returned books

purchased from Borders online. Nor can Borders charge lower prices online without hurting its store sales.

Here are two excellent examples of integrated channels:

- Charles Schwab, the financial powerhouse, delivers an excellent branded experience to its customers whether reached online, over the telephone, or in its walk-in branches.
- Hewlett-Packard (HP) has an excellent web site where customers can find information about any HP product or service. Customers can place an order online or by phoning Hewlett-Packard. They will receive postsale support by contacting HP and being directed to the nearest local business partner.

Another option is to set up special channels for favored customers. Many banks provide private banking channels to customers with large deposits. Dell provides a separate extranet for each high-value business customer. Schwab's premier customers are assigned to a dedicated account team that can always be reached through a toll-free phone number.

Your company must not only develop and operate efficient marketing channels but be prepared to add new ones and drop failing ones. Distribution channels are dynamic. They can create a competitive advantage when used right, but become a competitive liability when used poorly.

Employees

Your employees are your business! They can make or break your marketing plans. Hal Rosenbluth, owner of a major travel agency, stunned the marketing world with the title of his book, *The Customer Comes Second*.[31] Then who comes first? Employees, he said. His point is particularly applicable to service businesses. Service businesses involve intensive people contact. If the hotel clerk is sullen, if the waitress is bored, if the accountant doesn't return phone calls, then clients will take their business elsewhere. So companies like Rosenbluth Travel, Marriott, and British Airways operate on the following formula: First train the employees to be friendly, knowledgeable, and reliable; this will lead to satisfied customers who will return again; and this will create a growing profit stream for the shareholders.

Anita Roddick, who founded The Body Shop, agrees: **"Our people [employees] are my first line of customers."** By viewing her employees as customers, she aims to understand and meet their needs. Walt Disney held the same view: **"You'll never have great customer relations till you have good employee relations."** The way your employees feel is ultimately the way your customers are going to feel.

Some companies go to great lengths to find the right employees. There isn't a people shortage so much as a talent shortage. The people

that you hire today create your future tomorrow. Using a tight definition of the personality and character traits that it seeks in employees, Southwest Airlines hires only 4 percent of its 90,000 applicants each year. Then it makes sure to give them a career, not just a job.

A company that pays little to its employees will get back little in return. If you pay your people in peanuts, you will get monkeys. It will cost you lots of money to replace employees who leave. Finding talented and motivated employees and retaining them is a key to business success.

Smart companies pay generously. They attract the best people who outperform average people by a higher multiple than the higher pay. They experience less employee turnover and lower costs of hiring (because people flock to this company) and of training (because they hire people with more capabilities).

Pay is only part of the answer to good employee management. Companies are human and social organizations, not just economic machines. Employees need to feel that they belong to a worthwhile organization doing worthwhile work and making a worthwhile contribution. Gary Hamel said, **"Create a cause, not a business."**

Companies must prepare a compelling *value proposition* not only for their customers but also for their employees. The aim of *internal marketing* is to treat the employees as a customer group. Great organizations give even the lowest workers a good feeling. Consider the following:

- Bill Pollard, retired chairman of ServiceMaster, had a credo that included "We should treat everybody with dignity and worth." At a board meeting, coffee was accidentally spilled on the carpet and a janitor was called in. Bill took the cleaning solvent from the janitor and knelt down to clean the carpet himself to spare the janitor from having to do so in front of all the board members. **"You get respect by giving it."** (Sara Lawrence-Lightfoot, Harvard Graduate School of Education)

- One day a vice president said to Herb Kelleher, then CEO of Southwest Airlines, "It is harder for me to see you than [it is for] a ticket handler at our company." "Yes," said Herb. "The reason is that he is more important." Herb Kelleher went on to rename the Personnel Department the People Department. He also renamed the Marketing Department the Customer Department.

A company's people can be the strongest source of competitive advantage. John Thompson of Heidrick & Struggles advises: **"Get fewer, smarter people to deliver more value to customers faster."** Jeff Bezos of Amazon says: **"We look for people who have a natural inclination to be intensely focused on the customer."**

Companies need to inculcate their brand values into their employees. Intel wants to inculcate "risk-taking," Disney "creativity," 3M "innovativeness." Some companies include in the employee's remuneration a certain percentage for company values performance. General Electric links 50 percent of its incentive remuneration to value performance. Cisco bases 20 percent of bonuses on the employees' customer satisfaction scores. A company should go further and honor outstanding employee performance through recognition programs, newletters, CEO awards, and the like. John Kotter and Jim Heskett, in *Corporate Culture and Performance*,[32] empirically demonstrated that companies with strong cultures based on shared values far outperform companies with weak cultures by a huge margin.

A company must make sure that its employees understand that they are not working for the company. They are working for the customer. Jack Welch of GE would repeatedly tell his employees: **"Nobody can guarantee your job. Only customers can guarantee your job."** Sam Walton of Wal-Mart echoed the same sentiment: **"The customer is the only one who can fire us all."** Larry Bossidy, chairman of Honeywell International, Inc., sent out the same message: **"It's not management who decides how many people are on the payroll.**

It's customers." Some companies include a note in the employee's paycheck envelope: "This check is brought to you by the customer."

Sam Walton of Wal-Mart required the following employee pledge: **"I solemnly swear and declare that every customer that comes within 10 feet of me, I will smile, look them in the eye, and greet them, so help me Sam."** Lands End instructs its employees: **"Don't worry about what's good for the Company—worry about what's good for the Customer."** (See Innovation.)

Entrepreneurship

Businesses begin with an idea in the head of an entrepreneur. The entrepreneur is filled with passion and energy to create something new. The entrepreneur is the modern equivalent of pioneers searching for new frontiers. Entrepreneurs take risks against high odds. Their goal is not making money so much as making something new. And when they succeed, they create jobs and incomes for more people.

But according to a Chinese saying: "To open a business is very easy; to keep it open is very difficult." And the hours are long. **"Being in your own business is working 80 hours a week so that you can avoid working 40 hours a week for someone else."** (Ramona E. F. Arnett)

If the entrepreneur succeeds, the business grows. Comfort takes

over and routine sets in. The business focuses on operations and efficiency and becomes a well-oiled machine. What is lost is the entrepreneurial passion. The big danger is that the firm's products and services may become increasingly irrelevant in a changing marketplace. The big need is to keep a spirit of entrepreneurship alive.

Your company can nurture an intrapreneurial spirit in a number of ways. Encourage ideas. Reward good ideas. Set up a collection system for new ideas. Set up a skunk works. Every 90 days gather all the employees at an "idea bragging session," where employees describe how they got their new ideas.

Experiential Marketing

We talk about marketing *goods* and *services*, but Joe Pine and James Gilmore think that we should be talking about marketing *experiences*[33]—or designing experiences around our goods and services. The idea has many sources. Great restaurants are known for their experience as much as their food. Starbucks charges us $2 or more to experience coffee at its finest. A restaurant such as Planet Hollywood and Hard Rock Café is specifically set up as an experience. Las Vegas hotels, anxious to distinguish themselves, take on the character of ancient Rome or New York City. But the master is Walt Disney, who created the opportunity to experience the cowboy West, fairyland castles, pirate

ships, and the like. The aim of the experiential marketer is to add drama and entertainment to what otherwise might pass as stale fare.

Thus we enter Niketown to buy basketball shoes and confront a 15-foot photo of Michael Jordan. We then proceed to the basketball court to see whether the shoes help us score better. Or we enter REI, an outdoor equipment chain store, and test out climbing equipment on the store's climbing wall, or test out a rainproof coat by going under a simulated rainfall. Or we enter Bass Pro to buy a fishing rod and test it by casting in the store's pool of fish.

All merchants offer services; your challenge is to escort your customer through a memorable experience.

Financial Marketing

I have always urged marketers to be strong in financial thinking. This is not a natural inclination of marketers. They are marketers because they are more interested in people than in numbers.

Yet few marketers will rise to the top of an organization unless they have a good grasp of financial thinking. They need to understand income statements, cash flow statements, balance sheets, and budgets. Concepts such as asset turnover, return on investment (ROI), return on assets (ROA), free cash flow, economic value added

(EVA), market capitalization, and cost of capital must be as familiar to them as sales, market share, and gross margins.

Companies today are focusing on shareholder value. The CEO is not satisfied when the marketing vice president shows that the recent marketing initiatives have resulted in increased customer awareness, knowledge, satisfaction, or retention. The CEO wants to know marketing's impact on ROI and stock prices. Clearly marketers must start linking their marketing metrics to financial metrics.

Corporate cost cutters are now carefully scrutinizing marketing-related costs. Marketers must now justify every item in their marketing budgets and be able to show how each contributes to shareholder value.

One useful step is for companies to appoint *marketing controllers*. These are skilled financial people who understand the marketing process and what it takes to win. They know that advertising, sales promotion, and other marketing initiatives are necessary. Their task is to make sure that the money is spent well.

You can improve marketing's financial returns in two basic ways:

- Increase your *marketing efficiency*. Marketing efficiency involves reducing the costs of activities that the company must carry out. Suppose the company needs point-of-purchase displays and goes to only one display firm and orders them. Had the company invited competitive bids, it might have found a lower price for the same or better quality. Or a company might perform its own marketing research for X dollars, only to find that equivalent or even better quality research might have been outsourced to a marketing research firm for fewer dollars. Other examples: hunting down excessive communication and transportation expenses, closing unproductive sales offices, cutting back on unproven promotional programs and tactics, and putting advertising agencies on a pay-for-performance basis.

- Increase your *marketing effectiveness.* Marketing effectiveness represents the company's search for a more productive marketing mix. A company might increase its marketing effectiveness by replacing higher cost channels with lower cost channels, shifting advertising money into public relations, adding or subtracting product features, or adopting technology that improves the company's information and communication effectiveness.

The aim of marketing is to maximize not just your sales but your long-term profits. While salespeople focus on sales, marketers must focus on profits. Show me a top marketer, and you will be showing me a person who is financially well-versed.

Focusing and Niching

Wise companies focus. An old saying is that if you chase two monkeys, both will escape.

The mass market is made up of many niches. The problem of being a mass marketer is that you will attract nichers who will take better aim at specific customer groups and meet their needs better. As these groups are pulled away, the mass marketer's market shrinks.

Your choice therefore is whether to be a "gorilla" or a "guer-

rilla."—to be niched or be a nicher. I would argue that there are riches in niches. The customers in a niche are happy that someone is paying attention to their needs. And if your company serves them well, you will own the niche. Although the volume is low in a niche, the margin is high. Competitors will keep out because the niche is too small to support two players.

What does a successful nicher do for a second act? What the nicher should not do is become a generalist and go after the mass market. There are three sound strategies:

1. *Sell more products and services to the same niche.* USAA, the giant insurance company, originally sold only auto insurance to military officers. Then it added life insurance, credit cards, mutual funds, and other financial products to sell to military officers.
2. *Look for latent or adjacent members in the niche.* USAA recognized that it would eventually run out of enough military officers to sell to. So it decided to extend its target market to include all members of the military.
3. *Look for additional niches.* Every niche is vulnerable to attack or decay. The best defense against the vulnerability of a single niche is to own two or more niches. In this way, the company not only enjoys a high margin from its good service to the niche, but it also enjoys high volume through owning a portfolio of niches. A good example is Johnson & Johnson, which aside from being a strong force in a few mass consumer markets, is the technical or market leader in hundreds of specialized business-to-business markets.

Nichers are not necessarily small companies. Professor Hermann Simon, in his *Hidden Champions*,[34] lists scores of midsize German companies that enjoy over 50 percent market shares in well-defined global niches. Examples include Steiner Optical with 80 percent of

the world's military field glasses market; Tetra Food making 80 percent of the food for feeding tropical fish; and Becher producing 50 percent of the world's oversized umbrellas. These and other companies pursue well-defined niches in the global marketplace, and although they are less visible to the public, they are highly profitable.

Forecasting and the Future

The company that doesn't see trouble ahead is headed for real trouble. That's why it hires economists, consultants, and futurists.

Yet people must be cautious about predicting the future. Ben Franklin said, **"It is easy to see; hard to foresee."** An old saying is that those who live by the crystal ball will eat ground glass.

So many eminent observers have made wildly erroneous predictions.

- Thomas Edison opined that "the phonograph is of no commercial value."
- Irving Fisher, eminent Yale economics professor, said in September 1929, just before the Wall Street crash, "Stock prices have reached what looks like a permanently high plateau."

- Thomas J. Watson of IBM said in 1947: "I think there is a world market for about five computers."
- Ken Olson, former CEO of Digital Equipment Corporation, said in 1977, "There is no reason for any individual to have a computer in their home."
- Jack Welch, the retired chairman of GE, admitted to three forecasting errors during his career. When U.S. inflation was running at 20 percent, he forecasted that inflation would remain in the double digits. When oil hit $35 a barrel, he predicted that oil's price would rise to $100. When Japan was in its prime, he predicted that the Japanese would continue to take over more American industries.

All of these show the weakness of using today's situation to predict tomorrow's situation. The story is told about an auto company that increased its production of green cars after noticing a spike in their sales. The company didn't realize that dealers were slashing prices to get rid of green cars.

John R. Pierce of Bell Labs beautifully explained why so many predictions fail: **"The trouble with the future is that there are so many of them."**

The inimitable Yogi Berra said that **"prediction is very hard, especially of the future."** He also despaired: **"The future ain't what it used to be."**

The most truthful prediction is that business will be either better or worse. The same can be said for the economy.

Woody Allen commented on how to handle bad times: **"More than anytime in history, mankind faces a crossroads. One path leads to despair and utter hopelessness, the other to total extinction. Let us pray that we have the wisdom to choose correctly."**

Businesses have relied on economists to predict the future. There are two types of economists: those who can't predict the future and know it, and those who can't predict the future and don't

know it. After asking different economists for an opinion, Harry Truman finally gave up and requested a one-handed economist. He did not want to hear the words: "On the other hand." Basically, economists exist to make astrologers look good.

In spite of this, in order to be in front your business needs to forecast where customers and the economy are moving. Wayne Gretzky, the brilliant hockey star, when asked how he is always in the right position, said: **"It isn't where the puck is; it's where the puck will be."**

Yet watch out for experts who give a forecast in the form of a number or a date, but not both.

The truth is that the future is already here; it has already happened. The task is to find and study what the small percentage of future-defining customers want. The future is already here but is unevenly distributed in different companies, industries, and countries.

Dennis Gabor, the business strategist, is less concerned with predicting the future. He believes: **"The best way to predict the future is to invent it."** Your company faces an infinite number of futures and must decide on which one it wants.

Goals and Objectives

The most generic goal of business is to earn more than the cost of capital. The goal is to make today's investment worth more tomorrow. If this happens, the company has achieved economic value added (EVA).

Companies may add other goals, but they must be thought through carefully:

- *Corporate growth.* Companies need to grow, but it must be profitable growth. Too many companies go on acquisition binges or geographical expansions only to grow their top lines at a terrible cost to their bottom lines. They are buying growth rather than earning it.
- *Market share.* Too many companies aim to collect as many customers as possible. But more market share often means picking up more unreliable customers. These companies would be smarter to focus on nurturing loyal customers, getting to know them better, and finding more goods and services they may need or want.
- *Return on sales.* Some companies focus on achieving or maintaining a certain margin. But the margin is meaningless without matching it to the sales volume generated per dollar of assets (asset turnover).
- *Earnings per share growth.* Companies set targets for their earnings per share (EPS). But EPS does not necessarily reflect the return on capital because companies can raise EPS by buying back shares, writing off certain costs, and employing various creative accounting measures.
- *Reputation.* Companies should strive for a good reputation. A company's main reputational goals should be fourfold: to be (1) the supplier of choice to customers, (2) the employer of choice to employees, (3) the partner of choice to distributors, and (4) the company of choice to investors. Its reputational capital will contribute to its primary goal, earning a higher return than the cost of capital.

After a company clarifies its goal(s), it needs to develop specific objectives for the corporate level, the business divisions, and the

various departments. These objectives drive the planning process and carry incentives and rewards. Peter Drucker, who fathered the idea of *management by objectives*, nevertheless lamented: **"Management by objectives works if you know the objectives. Ninety percent of the time you don't."**

Yogi Berra, the colorful New York Yankees catcher, warned: **"If you don't know where you're going, you're liable to end up someplace else."** But then how do you set an objective? His answer didn't help: **"When you come to a fork in the road, take it."**

Think carefully about your goals and objectives. For example, speed is useful only if you are running in the right direction. A pilot got on the intercom and said: "I've got good news and bad news. The bad news first: I don't know where we're going. The good news: We're getting there fast."

Growth Strategies

It is not enough to be profitable. Companies must also grow. In fact, if you don't grow, you won't be profitable for long. Staying with the same customers, products, and markets is a recipe for disaster.

Investors want to see a growing top line; employees want to

have more advancement opportunities; and distributors want to serve a growing company. Growth is energizing. An old maxim says: "If you stand still, you get shot."

Companies often excuse their lack of growth by saying that they are in a mature market. All they are expressing is a lack of imagination. Larry Bossidy, CEO of Honeywell, observed: **"There's no such thing as a mature market. We need mature executives who can find ways to grow. . . . Growth is a mind-set."** If the car market was mature, how come the minivan sent Chrysler into a growth spurt? If the steel industry is mature, how do we explain Nucor? If Sears thought that there was no growth in retailing, how do we explain Wal-Mart or Home Depot?

Companies have tried several paths to growth: *cost and price cutting*, *aggressive price increases*, *international expansion*, *acquisition*, and *new products.* Each has problems. Price cuts are usually matched and neutralized. Price increases are difficult to pass on during sluggish economic times. Most international markets are now highly competitive or protected. Company acquisitions are expensive and have not proven very profitable. And the numbers of new product winners are few.

What companies fail to realize is that their markets are rarely fully penetrated. *All markets consist of segments and niches.* American Express recognized this and created the Corporate Card, the Gold Card, and the Platinum Card. To grow, a company can make four segment moves:

1. *Move into adjacent segments.* Nike's first success was making superior running shoes for serious runners. Later it moved into shoes for basketball, tennis, and football. Still later, it moved into aerobic shoes.
2. *Do a finer segmentation.* Nike found that it could segment the basketball shoe market into finer segments: shoes for the aggressive player, the high-jumping player, and so on.

3. *Skip into new segments (categories).* Nike moved into selling clothing tied to the various sports.
4. *Resegment the whole market.* Nike's competitor, Reebok, resegmented the market by introducing stylish shoes for the leisure market that could be worn every day without a sport in mind.

Another growth approach is to redefine the market in which your company operates. GE's Jack Welch told his people: **"Redefine your market to one in which your current share is no more than 10 percent."** Instead of thinking that your company has a 50 percent market share, it should see itself as operating in a larger market where it enjoys less than 10 percent of that market. Here are some examples:

- Nike now defines itself as being in the sports market rather than the shoe and clothing market. It is considering selling sports equipment and even offering services such as managing athletes' careers.
- The late Roberto Goizueta told his company, Coca-Cola, that while Coca-Cola had a 35 percent share of the soft drink market, it had only a 3 percent share of the total beverage market and it needed to increase its share.
- Armstrong World Industries, Inc., moved from floor coverings to ceilings to total interior surface decoration.
- Citicorp thought that it had a substantial share of the banking market but realized that it had only a small share of the total financial market, which includes much more than banking.
- AT&T stopped thinking of itself as a long distance telephone company and moved into carrying voice, image, text, and data on telephone lines, cable, cellular phones, and the Internet.
- Taco Bell went from an in-store fast-food restaurant to "feeding people everywhere," including kiosks, convenience stores, airports, and high schools.

Management can search for growth opportunities using the following framework:

- *Sell more of the current products to the current customers.* Encourage customers to consume more per occasion or consume on more occasions.
- *Sell additional products to the current customers.* Identify other products that the current customers might need.
- *Sell more of the current products to new customers.* Introduce your current products into new geographical areas or into new market segments.
- *Sell new products to new customers.* Acquire or build new businesses that cater to new markets.

Achieving growth requires developing a growth mentality in the company's personnel and partners. Watch for needs not being currently satisfied. Instead of starting from the company's current products and competencies (inside-out thinking), seek growth by sensing the untapped needs of existing and new customers (outside-in thinking). Look at the end users' needs, then your immediate customers' needs, and finally decide which needs you can meet profitably.

Adrian Slywotzky and Richard Wise proposed that companies have "hidden assets" that they could apply to satisfying "higher order" needs in their markets. "Most executives have spent years learning to create growth using products, factories, facilities, and working capital. They have spent much less time thinking about how to use a combination of relationships, market position, networks, and information—their hidden assets—to create value for customers and growth for investors."[35]

Guarantees

Guarantees are getting more fashionable. Guarantees can be powerful builders of corporate value and credibility. They may promise money back, compensation, or product replacement. But they must be relevant, unconditional, believable, and easy to understand. Ignore those who promise to help you use 30 pounds in a week, speak French in a day, or cure baldness.

Here are companies whose powerful guarantees have created strong followings:

- *Hampton Inn* guarantees that its rooms will give "complete satisfaction or your night's stay is free."
- *Loblaws* (Canada) offers to replace its private-label food items with national brands if customers don't consider Loblaws a better value.
- *Xerox* will replace any Xerox product within three years until the customer is fully satisfied.
- A. T. Cross will replace its pens and pencils for life. The customer mails the broken pen or pencil to the company and it is repaired or replaced free and mailed back.

- *Saturn* will take its new car back within 30 days if the customer is not satisfied.
- *Allied Van Lines* will pay $100 for each day of delay in moving a customer's goods.
- *BBBK Pest Control* will refund customer money if it fails to eradicate all pests and will pay for the next exterminator.

Here is how L. L. Bean words its well-known guarantee: **"All of our products are guaranteed to give 100% satisfaction in every way. Return anything purchased from us at any time if it proves otherwise. We will replace it, refund your purchase price or credit your credit card, as you wish. We do not want you to have anything from L. L. Bean that is not completely satisfactory."**

There are always some companies, however, that are more ready to proclaim guarantees than to honor them. Their lawyers word the guarantees with hidden conditions and special requirements that make them into nonguarantees. But in the process, the company creates a growing band of angry people bent on discrediting the company to whoever will listen.

Image and Emotional Marketing

Companies are increasingly turning to image and emotional marketing to win customer mind share and heart share. Although this has gone on from the beginning of time, today it is accelerating. The old marketing mantra advised companies to outperform competitors on some benefit and to promote this benefit: "Volvo is the safest car"; "Tide cleans better than any other detergent"; "Wal-Mart sells at the lowest prices." Going under the name of *benefit marketing*, it assumed that consumers were more influenced by rational arguments than by emotional appeals. But in today's economy, companies rapidly copy any competitor's advantage until it no longer remains. Volvo's benefit of making the safest car means less when customers start seeing most cars as safe.

More companies are now trying to develop images that move the heart instead of the head. Those addressed to the head tend to state the same benefits. So companies are trying to sell an attitude like Nike's "Just do it." Celebrities are shown wearing "milk mustaches." Prudential wants people to have a "piece of the rock." These campaigns work more on affect than cognition.

Companies are turning to anthropologists and psychologists to develop messages that touch emotions more deeply. One ap-

proach is to build the image of the product around some deep archetype—the hero, antihero, siren, wise old man—that resides in the collective unconscious.

You can readily find out how your customers and noncustomers see your company and your competitors. A marketing research firm would ask: "How old a person is this company?" (The answer may be a "teenager" in the case of Apple Computer and a "grandfather" in the case of IBM.) Or "What animal does this company remind you of?" (Hope for a lion or a monkey, not an elephant or a dinosaur.)

Implementation and Control

There is a constant debate about whether strategy or execution is more important. Peter Drucker observed that **"a plan is nothing unless it degenerates into work."** Yet a poor plan with great implementation is no better than a good plan with poor implementation. The truth is that both are necessary for success.

Implementation snafus are legion. Kodak's ads for a new camera drew people into stores only to find that the cameras hadn't arrived.

A major bank announced a new savings plan in the newspapers but hadn't explained the plan to its branch managers. An engineering firm made a decision to sell its services in the Middle East but could not find any capable person who spoke Arabic and would be willing to transfer there. A hotel decided to make service its major value proposition but let service be run by a weak manager with a small budget and an insufficient staff.

Good implementation needs buy-in from those who are to carry out the plan. The best way to get their buy-in is to have them participate in the plan's development. Thus salespeople are more likely to accept the marketing plan if a sales representative participated in its development and if the target volumes and prices are plausible. So the planner's first need is to sell the plan inside, not outside.

Control is the way that we catch failures in implementation or strategy. The company may have implemented poorly, set the wrong marketing mix, aimed at the wrong target market, or done poor initial research. Control is not a singular thing but a host of tools for making sure that the company is on track. The tools fall under four types of control shown here.[36]

Types of Marketing Control

Type of Control	*Prime Responsibility*	*Purpose of Control*	*Approach*
I. Annual-plan control	Top management; middle management	To examine whether the planned results are being achieved	• Sales analysis • Market-share analysis • Sales-to-expense ratios • Financial analysis • Market-based scorecard analysis

Type of Control	*Prime Responsibility*	*Purpose of Control*	*Approach*
II. Profitability control	Marketing controller	To examine where the company is making and losing money	Profitability by: • Product • Territory • Customer • Segment • Trade channel • Order size
III. Efficiency control	Line and staff management; marketing controller	To evaluate and improve the spending efficiency and impact of marketing expenditures	Efficiency of: • Sales force • Advertising • Sales promotion • Distribution
IV. Strategic control	Top management; marketing auditor	To examine whether the company is pursuing its best opportunities with respect to markets, products, and channels	• Marketing effectiveness rating instrument • Marketing audit • Marketing excellence review • Company ethical and social responsibility review

The processes of planning, implementation, and control constitute a virtuous feed forward/feed back system. If your company is not achieving its goals, either you are implementing your plan poorly or your plan has become irrelevant and needs fixing.

Information and Analytics

A former CEO of Unilever said that if Unilever only knew what it knows, it would double its profits. The meaning is clear: Many companies sit on rich information but fail to mine this information. This has led to an explosion of interest in *knowledge management*: organizing a company's information so that it is easily retrievable and learning can be extracted from it.

Many companies, especially those resulting from mergers or acquisitions, have ended up with incompatible data systems. Before they can get a whole view of their customer, competition, and distribution, they have to streamline and integrate their data into a single data system.

Marketing is becoming more based on information than on brute sales power. Thanks to the computer and the Internet, no salesperson can say to the boss that he or she didn't know the prospect's industry, company, problems, or potentials. Using *sales automation software*, a salesperson can record each prospect's and customer's needs, interests, opinions, and hot buttons. The salesperson can answer questions in the prospect's office by connecting with the company's mainframe or other resources on his or her laptop. The salesperson, after negotiating, can print out a customized con-

tract for the prospect to sign. And afterward, the salesperson can look up what any customer bought and figure out further opportunities for cross-selling or up-selling.

Besides sales automation software, companies need *marketing automation software* to help their marketers gain efficiency and effectiveness.

One form is *real-time inventory management*, where a marketer can tell what the company and its competitors sold yesterday, including features and prices. This not only facilitates more synchronous production planning but also allows real-time tactical responses.

- Some people define Wal-Mart as an information system company more than a retailer. Wal-Mart knows the sales of each product in each store at the end of the day, making it easier to order the right replacement stock for the next day. The result: Wal-Mart carries lower inventory and therefore needs less working capital. Its ordering is driven by real demand, not by forecasted demand. It has synchronized its ordering with the demand flow.
- 7-Eleven in Japan is another retailer making data-driven decisions. 7-Eleven replenishes its stock three times a day in response to orders from individual store managers of what they expect to sell in the next few hours. 7-Eleven not only trains its store operators to capture customer and sales information but also teaches them how to use it.

Another form is *real-time selling*, where a company has programmed in rules suggesting other products and services that might be mentioned to a prospect or customer on the spot.

- Suppose a couple in their late forties comes into a bank for a home repair loan. Such customers are likely to have college-age children, and the bank might mention a college loan as well.

- A business traveler checks into a hotel that knows from her record that she is a frequent traveler. The hotel clerk might offer to arrange for her stays at sister hotels for known future dates.

Still another form is *marketing process automation*, where a company has codified its marketing processes that its product, brand, and segment managers need to know to operate more effectively.

- A brand manager needing to do a concept test turns on his computer and looks up the six steps in a concept test; he receives tips and best-of-class examples. A brand manager needing to choose an appropriate sales promotion turns to her computer to get world-class advice.

Yet another form is an assortment of software packages that facilitate handling such processes as new product development, advertising campaigns, marketing projects, and contract management. They are being developed by Emmperative, E.piphany, Unica, and several other marketing automation firms.

In all battles—military, business, and marital—victory goes to the party that has the better information. Arie De Geus, former strategist for Royal Dutch/Shell, observed: **"The ability to learn faster than our competitors may be our only sustainable competitive weapon."**

At the same time, managers often must make decisions before they have all the facts. If they wait too long, the opportunity may be gone.

Innovation

Firms face a dilemma. If they don't innovate, they will die. And if they do innovate—and their innovations are not successful—they may also die. Given that only 20 percent of consumer packaged goods introductions are successful and maybe 40 percent of new business-to-business products are successful, the odds are discouraging.

Yet innovation is a safer bet than standing still. The key is to manage innovation better than your competitors. Innovation and imagination must be made into a *capability*, as it is at 3M, Sony, Casio, Lexus, Braun, and Honda. These companies have been called "product juggernauts" in that they run product development as an ongoing and interactive process, with the manufacturer, sales force, and customer all working together to develop, refine, adapt, and improve products.[37]

The innovation process has to be managed carefully as a set of processes, including *idea development*, *idea screening*, *concept development and testing*, *business analysis*, *prototype development and testing*, *test marketing*, and *commercialization*. The company needs to build in or acquire the competencies needed in each step of the process. And it must appoint a well-seasoned leader of the innovation process.

Gary Hamel holds that innovation can be a *strategic capability*,

just like in some companies quality is a discipline.[38] Innovation is not achieved by a two-day brainstorming session. Success requires developing three markets within the firm: an *idea market*, a *capital market*, and a *talent market*. The company must encourage and reward new ideas; it must set aside a pool of money to finance investments in promising new ideas; and it must attract the talent necessary to implement these ideas. And those who contributed the ideas, capital, and talent should be rewarded.

Innovation is not limited to new products or services. It includes thinking up new businesses and business processes. Nestlé sells coffee in the groceries but it was Starbucks that thought up a new way to retail coffee. Barnes & Noble thought up a new concept for a physical bookstore, and Amazon thought up a brilliant system for selling books online. All of the following were major business innovations: Club Med, CNN, Dell Computer, Disney, Domino's Pizza, Federal Express, IKEA, McDonald's, watchmaker Swatch, Wal-Mart.

A company needs to pursue both continuous improvement and discontinuous innovation. Continuous improvement is essential, but discontinuous innovation would be even better. A greater sustainable competitive advantage can come from discontinuous innovation, albeit at a much greater cost and risk. The risk comes from several facts: The technology is evolving, there are competing technologies, the market is ill-defined, there is no delivery infrastructure, and timing of completion is difficult. Furthermore, marketing research is of little value. Discontinuous innovation hurts the bottom line in the short term, and it may not help the bottom line in the long term. The conventional new product process works well for continuous improvements but does not work for discontinuous innovations.

Where should companies go to get new product ideas? A marketer's normal answer is to ask customers what they need. Done right, this can yield useful ideas, but probably incremental rather than breakthrough ideas. Consumers would not have answered that they wanted a PC, Palm, Walkman, wireless phone, or camcorder. Akio

Morita, Sony's late CEO, said: **"There was no need for market research. The public does not know what is possible. We do."**[39]

The truth is that ideas can come from anywhere, and not only from customers or the lab. Every firm is a potential hotbed of ideas, except the company fails to stimulate them or lacks a net to catch them. Why not appoint a high-level *idea manager* to whom salespeople, distributors, suppliers, and employees could send their ideas? The idea manager has a committee that finds the better ideas and rewards those whose ideas the company implements. The Dana Corporation, for example, expects every employee to place two ideas a month into the company's suggestion box on any improvements the employee senses, whether in selling, purchasing, energy use, travel, or other areas.

Companies that expect mild improvements can usually get them. The trick is to ask for a huge improvement. Instead of a 10 percent reduction in costs, ask for a 50 percent reduction in costs. Instead of a 10 percent improvement in productivity, ask for a tenfold improvement. The effect of this is to force everyone to reexamine the operation and design a better operation, instead of only squeezing out a little more from the present operation.

Every business should examine its *innovation index*. This describes the proportion of its sales derived from products less than three years old. No company will survive with a zero innovation index. A traditional business will have a hard time if its innovation index isn't at least 20 percent. High-fashion clothing businesses need at least a 100 percent innovation index to succeed. The message: *Innovate or evaporate*. (Also see Creativity, New Product Development.)

Intangible Assets

The modern balance sheet is a lie! It omits the company's most important assets. Probably 80 percent of a company's value lies in its intangible assets; but they are not on the books. The value of a company's plant, equipment, inventory, and working capital hardly reflects a true value of a company.

For example, where is Coca-Cola's *brand value* on the company's balance sheet? Coca-Cola's brand value is estimated at $70 billion. Where is the *value of its customer base*? It's the satisfied customers who repeatedly purchase from the firm who constitute a major asset. Where is *employee value*? Having better employees than the competition will spell the difference between having superior profits and average profits. Where is *partners value*? Loyal suppliers and distributors can make a company, and disloyal ones can break a company. Where is *knowledge and intellectual capital value*? Patents, copyrights, trademarks, and licenses can be one of the company's major assets.

No wonder there is often a huge gap between a company's market capitalization and its book value. The gap reflects the value of the intangibles. For example, AmericaOnline's book value in 1999 was only 3.3 percent of its market capitalization. Thus 97 percent of AOL's value was not on the balance sheet.

Companies would be wise if they start identifying and assessing all their marketing assets such as their brands, customer relationships, employee relationships, channel relationships, supplier relationships, and intellectual capital. The company should choose marketing activities that build the value of their market-based assets.

Should your company even consider owning physical assets? Owning physical property can be a liability. All a company needs is *access* to physical assets. To operate as a lean company may call for *decapitalizing*—outsourcing activities and shrinking working capital. The Sara Lee Corporation, for one, thinks that it is better to own brands (Champion, Coach, Hanes, Playtex, Hillshire Farm, and others) than factories.

International Marketing

A company that masters only its domestic market will eventually lose it. Strong foreign competitors will inevitably come in and challenge your company. It is now business without borders.

One of the best growth paths for a business is to go regional or global. But most companies hesitate to go abroad. They see obstacles and risks stemming from tariffs, language differences, cultural differences, devaluation and exchange control risk, and bribery.

But there are also gains. By going abroad, companies actually diversify their risks by not depending on only one country's market.

In fact, the market for their products and services may be mature at home and growing abroad. Furthermore, these companies will be stimulated to improve their products as they compete in new situations against new competitors.

But companies must adapt their products and marketing mix when they go abroad. Asea Brown Boveri (ABB) uses the slogan: **"We are a global firm local everywhere."** Royal Ahold, the giant Dutch food retailer, has the brand philosophy, **"Everything the customer sees we localize. Everything they don't see, we globalize."**

When naming its new products, a company must make sure its name will travel internationally. Chevrolet named its new car Nova, not realizing that in Latin America *no va* means "doesn't go."

Companies usually evolve globally through five stages: (1) passively exporting, (2) actively exporting using distributors, (3) opening sales offices abroad, (4) setting up factories abroad, and (5) establishing regional headquarters abroad.

In expanding abroad, companies tend to exercise loose administrative controls initially, preferring to put their faith in their entrepreneurial country managers. Later they start imposing some strategic controls aimed at standardizing global planning and decision processes.

Companies must choose foreign distributors carefully. They need to define distributor performance very clearly and be aware of host country laws regarding distributor treatment. The distributors need to be given adequate incentives to grow the market as fast as possible.

Companies succeed best when they recognize a large target market whose needs are not being met by the current sellers. By inventing new values for this target market that are difficult to replicate and by building a strong company culture to serve this market, the company has a good chance to succeed.

Companies entering developing countries should offer new benefits or introduce their products at a lower price, rather than

come in with the same offerings made at home. They must be conscious of liability for the potential misuse of their products due to low literacy and the poor quality of intermediary channels, as well as counterfeiting possibilities.

Two issues arise when a company appoints regional managers. The first is whether to locate regional management at headquarters or in a capital city of the region. The second is whether regional managers should represent the interests of headquarters or of the region's country managers. The regional headquarters location will influence its orientation.

Although a company may grant high autonomy to its country managers, it can still achieve a fair measure of coordination through corporate information exchange systems, company guidelines and regulations, regional line managers, and headquarters product directors.

Country managers are not all equal. Usually the country managers in the larger markets have more autonomy and influence. The larger markets are often chosen as centers of excellence in the handling of research and development (R&D) and new product launches. They also have a large influence on the country managers in the smaller surrounding countries.

Multinational corporations face tough decisions on which products to emphasize in which countries. The allocation of products and advertising money to the different countries must be guided by consumer preferences and purchasing power, distribution strength, competitor positions, and economic future conditions in each country.

Highly efficient export-oriented companies are likely to gain market share in other countries. This will set up resistance by entrenched interests in the form of high tariffs and dumping charges. Ultimately these exporters may be wise to move production into countries that are resisting these imports.

A multinational that abandons troubled countries will have to

eventually abandon all countries. The company should think more of shrinking its presence in a troubled country than abandoning it.

Global countries must learn to use countertrading. Many countries are poor but they will barter. You'd better learn to take some goods in exchange or forget selling to that country. Pepsi-Cola had to promise Russia that it would help sell Russian vodka abroad in exchange for selling Pepsi-Cola in Russia.

When companies fail abroad, the most common factors are:

- Failure to take enough time to observe, absorb, and learn the new market.
- Failure to get reliable statistical information about the new market.
- Failure to define the target user.
- Failure to adapt the product and/or marketing mix.
- Failure to offer adequate service.
- Failure to find good strategic partners.

Internet and E-Business

The Internet offers radically new possibilities for conducting business more efficiently. Just look at what you can do now that you couldn't have done (or done easily) before:

- You can display much more information about your company and products—and sell them—on a web site operating 24 hours a day, 7 days a week.
- You can purchase more effectively because you can use the Internet to identify more suppliers, put out requisitions online, buy on market exchanges, and hunt for bargains on online auction markets and used goods markets.
- You can place orders, transact, and make payments to suppliers and distributors faster and at a lower cost by setting up extranets with your partners.
- You can recruit more effectively using online job listing services and e-mail interviews.
- You can supply better information and training to employees and to your dealers through the Internet.
- You can set up an intranet to facilitate communication among your employees, as well as between them and headquarters and your mainframe computer. The intranet can feature

newsletters, personnel information, product information, e-learning modules, company calendars, and so on.

- You can promote your products over a much broader geographical area.
- You can more efficiently research markets, customers, prospects, and competitors by tapping into the wealth of information on the Internet and by carrying out focus groups and surveys on the Internet.
- You can send ads, coupons, samples, and information to requesting or targeted customers.
- You can customize offerings, services, and messages to individual customers.
- You can substantially improve your logistics and operations using the Internet.

The Internet provides a brilliant new platform for communicating, buying, and selling. Its benefits will only grow over time. Business leaders have lauded its potentials:

- Jack Welch of GE admonished his people to produce more than a web site: **"Embrace the Net. Bring me a plan how you are going to transform your business beyond adding an Internet site."**
- John Chambers, CEO of Cisco, aims to Web-ify Cisco's entire business: **"Every customer interaction provided by a Cisco employee that does not add value to the business ought to be replaced by a Web-based function."**
- Bill Gates, chairman of Microsoft, sees the Internet as indispensable to companies: **"The Internet is not just another sales channel. The future company will operate with a *digital nervous system*."**

By embracing the Internet early, companies have greatly reduced their costs compared to late-adopting competitors:

- Dell, by selling customized computers through low-cost telecommunications and Web channels, has a much lower cost of doing business than HP/Compaq, IBM, and Apple. Dell has grown at twice the rate of the rest of the industry and is now the leading personal computer seller in the United States.
- GE claims to have saved hundreds of millions of dollars of its purchasing budget by establishing its Trading Process Network and requisitioning products over the Internet.
- Oracle ran an ad claiming to have saved over a billion dollars by using its Internet-based systems in running its own business.

Although the main benefits of the Internet are many and varied, it was e-commerce and not the other applications that caught most of the public's attention. E-commerce meant the opportunity to convert the Internet into a selling channel. E-commerce dot.coms started by selling books, music, toys, electronics, stock buying, insurance, and airline tickets, and soon added furniture, large appliances, home banking, home food delivery, consulting, and almost everything else. The new dot.coms instilled fear in every store-based retailer. Would the availability of online products spell the kiss of death for stores?

Smart store-based retailers such as Barnes & Noble, Wal-Mart, and Levi's took no chances and set up separate online sales channels. Instead of staying only "brick and mortar," they moved to "brick and click."

But many dot.coms collapsed in the late 1990s, having made the mistake of collecting "eyeballs" instead of revenues. One dot.com start-up told the venture capital supplier: "Revenues are a distraction that I cannot afford." These dot.coms lacked not only an e-business strategy but even a business strategy.

No wonder so many dot.coms turned into dot.bombs. When the dot.com bubble burst, many store-based businesses gave a sigh of relief. Yet smart retailers and businesses did not ignore the potentials of the Internet and added an online presence.

Every company needs a web site today that reflects the company's quality. One warning: Don't let your web site be designed by a techie who wants to illustrate his or her technical prowess. Customers can't wait for all the downloading of pretty pictures. They want information, not show time. They want a fast download, a clear and uncluttered initial screen, easy passage to other screens, clear information, an easy ordering procedure, and no intrusive advertising.

Leadership

All managers should be leaders, but most are administrators. If you are spending most of your time on budgets, organization charts, costs, compliance, and detail, you are an administrator. To become a leader, you need to spend more time with people, scanning opportunities, developing a vision, and setting goals.

Your chief executive officer (CEO) should be the firm's architect; and your chief operating officer (COO) should be the firm's engineer who optimizes within the firm's architecture. To do their respective jobs well, both should have selling skills. They need to sell their ideas to their investors, peers, and staff. Leaders need to be teachers and teach others to be leaders.

Bad managers, in contrast, rely on command and control to get their ideas carried out.

A business leader's job is **"to make meaning"** (John Seely Brown, chief scientist of Xerox Corporation). The leader needs vision. Vision is **"the art of seeing things invisible"** (Jonathan Swift). Vision is the ability to conjure up a picture of great opportunities to inspire the employees and the company's stakeholders. The vision must burn in the leader's breast if it is to ignite a passion in others. At the same time, be warned that there is a big difference between vision and hallucination.

The leader must be able to gain respect for his vision and as a person. The followers must believe that the leader is serving them, that he or she is a *servant-leader*. Napoleon said that **"A leader is a dealer in hope."** Robert Townsend, former CEO of Avis Rent-A-Car, observed: **"True leadership must be for the benefit of the followers, not the enrichment of the leaders."** Leadership works best when there are committed followers.

Some think that great leaders need charisma, and point to people such as Franklin Roosevelt or Winston Churchill. They are forgetting Harry Truman. The leader does not need charisma to be effective. Charismatic leaders are often suspect. Some of the greatest business leaders went about their work in a quiet way touching the minds and hearts of their staff. They are friendly, approachable, and caring. They act as role models. Charles R. Walgreen III transformed Walgreen Co. into a company whose cumulative stock returns since 1975 have beaten the general stock market by over 15 times. Yet he never takes credit, pointing instead to his great team, and he pins his success on being "lucky." Katherine Graham of *The Washington Post* was another quiet leader who built a great newspaper into a greater one. The Chinese philosopher Lao-tzu said: **"A leader is best when people barely know that he exists."**[40]

The best leaders want to surround themselves with talented managers. They revel in finding managers who are smarter than they are. CEO Tom Siebel wants the executives in his organization to be significantly smarter than he is in their particular areas. The chief financial officer (CFO) should be better at managing finances than the

CEO, and the head of marketing should be better at marketing than the CEO. The CEO's main task is to build a team of experts who are aligned with each other and the primary goals of the company.

And good leaders don't want yes-men. Be ready to fire those who agree with you. Good leaders want the honest views of their colleagues. They encourage constructive debates and out-of-the-box thinking. They invite big-picture ideas. They tolerate honest mistakes. And when they make the final decision, they inspire their people to do their best.

And the best leaders don't spend too much time poring over numbers. They get out and meet the troops. And they devote a lot of time to major customers. Jack Welch of GE spent 100 days a year talking with major customers. So did Lou Gerstner of IBM.

At the same time, the job of a leader is daunting. It isn't all about playing golf with other business leaders. One CEO said, **"I am only comfortable when I am uncomfortable."** When Dick Ferris, former CEO of United Air Lines, was asked how he sleeps in tumultuous times, he said, **"Just like a baby—I wake up every two hours and cry."**

Yet the leader must be more of an optimist than a pessimist. He must see the cup as half full rather than half empty. He is mostly tested when the times are tough. It is a rough sea that can make a great captain. Clearly the leader lives with risks. Followers are lucky because all they have to do is carry out the orders.

Leaders can be corrupted by success. If they are not careful, egotism seeps in. As someone observed: **"Egotism is the quality that causes a person to think he's in the groove when he's actually in a rut."**

With regard to marketing, too many CEOs see marketing expenditures as just an expense and fail to see that a large part of it is an investment. There are two types of CEOs: those who know that they don't understand marketing and those who don't know that they don't understand marketing.